

International Trade Committee

Oral evidence: UK Trade Options beyond 2019, HC 817-iv

Tuesday 17 January 2017

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Members present: Mr Nigel Evans (in the Chair); Liam Byrne; James Cleverly; Marcus Fysh; Sir Edward Leigh; Chris Leslie; Shabana Mahmood; Toby Perkins; Sir Desmond Swayne.

In the absence of the Chair, Mr Nigel Evans was called to the Chair.

Questions 264 - 308

Witnesses

I. Mike Hawes, Chief Executive, Society of Motor Manufacturers and Traders, Mike Spicer, Director of Research and Economics, British Chambers of Commerce, and Peter Hardwick, Head of Exports, Agriculture and Horticulture Development Board.



Examination of witnesses

Mike Hawes, Chief Executive, Society of Motor Manufacturers and Traders, Mike Spicer, Director of Research and Economics, British Chambers of Commerce, and Peter Hardwick, Head of Exports, Agriculture and Horticulture Development Board.

Q264 **Chair:** Welcome to this morning's session on UK trade options beyond 2019. Can I start by apologising that the Chairman is unable to be here? He is fog-bound in Scotland and was unable to get the plane out last night. I do apologise.

Perhaps we could just start with a short introduction by each of you, starting with you, Mr Hawes, and then we will go straight into the question and answer session.

Mike Hawes: Mike Hawes, Chief Executive of the Society of Motor Manufacturers and Traders, which represents the automotive industry in the UK.

Peter Hardwick: Hello. I am Peter Hardwick. I am the Head of Exports for the Agriculture and Horticulture Development Board. I am responsible for the export work for the sectors that we represent, which is crops and animal products.

Mike Spicer: I am Mike Spicer. I am the director of Research and Economics at the British Chambers of Commerce, which is the national association for accredited Chambers of Commerce in the UK.

Q265 **Chair:** Thank you very much. Let us start with the World Trade Organisation schedules and Mr Hardwick. We have heard about the possible difficulties in establishing UK schedules at the World Trade Organisation in respect of agricultural products when it comes to tariff rate quotas and aggregate measures of support. How significant are these and how do you think they could be resolved?

Peter Hardwick: Certainly the tariffs themselves are very significant, particularly if they were to apply to our trade with the European Union. In some sectors they are as high as 50% or 60%. For example, in the beef, sheepmeat and pigmeat sectors, those would be extremely damaging; cereals are around the same sorts of levels. Clearly that is very high. It is also the case that we cannot arbitrarily set them, so we do need to go through a process where we get those agreed. Of course we could adopt the current EU levels. In theory, as long as there is just a change in the documentation and the UK is put at the top of the piece of paper, that is accepted, but those are subject to challenge. I do think the process is likely to be a bit more complicated than that and we will have to go through some sort of procedure to get those agreed.

Q266 **Chair:** I did mean to say right at the beginning as well, we aim to do this session in about an hour, so hopefully questions will be succinct, as well as the answers.



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This is to each and every one of you: what will the practical effects be on the sectors and/or members that you represent if the United Kingdom has to go on WTO rules alone?

Mike Hawes: If we were to revert to WTO, that could threaten the viability of the automotive sector. On automotive, on finished vehicles, that would be a 10% tariff. On parts and components, that would be between 2.5% and 4.5%. If you follow that logic through in terms of new cars, on the cars that we import—and remember, we import about 80% of the vehicles we sell in the UK—that would add about £2.7 billion or about £1,500 per car sold. Given that 80% of the cars sold are imported, some of it would be absorbed by manufacturers, but the majority would be likely to be passed on to the consumer, because there is that market dominance.

The challenges on exports, the total value there would be more like £1.8 billion. Invariably you would be exporting as a minority market share, you could not pass on that cost, so you would have to absorb that, hence you become highly uncompetitive. Certainly talking to all our members, their greatest fear is the cliff edge that would be reverting to WTO and a 10% tariff.

Peter Hardwick: I have probably covered some of this partly in my first response, but certainly the levels of tariff that exist at the moment would be extremely damaging to the agricultural sector because it would significantly affect our competitiveness. We probably have to be realistic, however, about the importance of exports to all of the agricultural sectors. In some of them they are extremely important; in others less so. For example, in the horticulture sector, we are a significant net importer, so the implication of tariffs in the other direction would be higher food costs in the UK, which is of course also a problem politically.

Q267 **Chair:** What sort of percentage are you talking about?

Peter Hardwick: In cereals, for example, it is around 50%; it could be as high as 50%, a little less than that. There is already a system of tariffs for imports into the European Union under an agreed system. In horticulture, I think it is quite a bit less than that, but it would still have an effect, of course, on imports. I am not sure if we are going to talk later about transactional issues, but certainly in terms of the way trade is done, these have implications for customs controls and of course the logistics of dealing with that, but we might discuss that later.

Mike Spicer: Cutting across the broader swathe of businesses, if we talk about goods trade just specifically, then tariffs would be imposed on around 90% of the UK's goods exported to the EU. If that trade were carried out on the most favoured nation basis, then the average tariff would be just over 5%. That is the tariff element of it. The situation is more complicated for services, because the EU does not have an external trade policy for services. One thing to bear in mind in particular would be if the free trade agreements that EU already has with third countries were



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not somehow grandfathered to the UK, then there are some potentially large effects there if the UK were trading on that basis with those third countries.

On the competitiveness piece, to echo what others have said, there is of course the impact of competitiveness vis-à-vis companies that are based in the European Union, but also vis-à-vis companies that are based outside the European Union and in countries with free trade agreements with the European Union.

Q268 James Cleverly: I predicate my question with a big “if”, which is if we go to the full tariff on car exports—we are not sure, but based on that—could you, Mr Hawes, just talk through what might be the behavioural change implication in terms of brand purchasing for the UK market if there was a cost differential between UK brands and imported brands?

Mike Hawes: I do not think there would be a significant brand change. About 80% of what we sell in the UK comes from abroad. You have to remember that the choice to consumers is greater than it has ever been. There are about 400 different models on the market from 40, 45 brands. Yes, there are some companies that at the moment build exclusively in the UK. They tend to be premium and hence a smaller part of the market. Certainly they would potentially see a small boost, but the real volume is coming from abroad. Given that the average list price will likely increase as those costs are passed on, you would not see a significant change in consumer behaviour in terms of brand.

Q269 James Cleverly: But we are seeing some of the newer brands, non-European brands, Hyundai, for example, they had quite aggressive market share takes over the last few years and they are on WTO rules, aren't they?

Mike Hawes: No, there is a free trade agreement between the EU and South Korea, but they also produce in Europe, so the cars that they produce in Europe are clearly free from tariffs. You are right, they have been increasing their market share. Also their product range has expanded; it is more appealing to European consumers than perhaps it was 10 years ago. That is often the way, as brands develop and specifically design models for large global markets.

Q270 Chair: The Prime Minister is making it absolutely clear with her 12-point plan today the sort of model she is looking for.

Mr Hawes, the 80% of cars that come into the UK from abroad, from within the European Union, what sort of noises are you hearing from those manufacturers as to the lobbying that they are doing with their own Governments as far as a preferential trade deal with the United Kingdom?

Mike Hawes: There is no doubt that the majority of those 80% come from Europe. There is no doubt that the industry and the companies would like to see a good deal with the UK, because the UK is the second-biggest car market in Europe and we are the third-largest manufacturer



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of cars in Europe. However, what is equally clear—and perhaps more importantly so—is that they recognise and believe that the importance of the European market, being that much greater, is more important. We have had discussions with our equivalent organisations across Europe and it is quite clear that they see the future of Europe as more important and that they would align with the political imperative of their own country.

Q271 Chair: What are you saying there though, that they would be prepared to join the politics rather than the economics of selling their cars tariff-free into the UK?

Mike Hawes: For instance, if you look at the German manufacturers, they see the importance of Europe as more important than the UK market, important though it is. There have been articles written covering interviews with the head of the German Automotive Association. He has been very clear that, yes, they want a good deal, they would like to see the UK get a good deal, but what is more important is the future of Europe. It is a bigger market, and I suspect, I would argue, that Europe and the European project has helped the German automotive manufacturers certainly to be globally competitive.

Q272 Chair: Are you saying that Mr Audi, Mr Mercedes, Mr BMW are not banging on the door of Angela Merkel and saying, “We need a good deal with the United Kingdom”?

Mike Hawes: I think you will see that they will align with what is best for Germany.

Q273 Sir Desmond Swayne: If we end up with a free trade agreement and not in a customs union, how will exporters be affected by rules of origin and how will they adapt?

Mike Hawes: It is a very good question. Clearly, much like free trade agreements, generally rules of origin require around 50%, 55% local content. Currently in the UK the average car has about 41% local content. Being part of the customs union, basically European content counts, so that is not an issue. If you then have a free trade agreement, and again you can look at the EU and South Korea as an example here, they require 55% local content. As a consequence, potentially a lot of the vehicles made in the UK may not qualify, depending on the nature of that agreement, because we would not reach the threshold for rules of origin.

The industry has been working hard over the last 10 years or so as the industry has grown, and it has been very successful in the last 10 years or so to try to re-shore the supply chain to build up that local content. Over the last five or six years we have gone from 35% to 41% average local content, but to get to 55% basically you need another 33%, 34% increase in local content. That cannot happen overnight. The danger is that UK-built cars may not qualify under most normal free trade agreements.

Q274 Sir Desmond Swayne: A question for all of you: if we end up with a



new customs system after Brexit, what sort of lead time will businesses need to get into that and what are the cost implications?

Mike Hawes: Difficult to say exact lead times. The automotive sector works on the basis of lean manufacturing, just-in-time delivery. Given we are highly-integrated across Europe in terms of parts, components, products, goods—and indeed, to a certain extent services—at the moment a part will go back and forth three or four times in terms of production. A part will go to a component manufacturer, to an engine manufacturer and then to a final car manufacturer and that could cross the Channel two or three times. At the moment, we are highly efficient in doing that. Basically, the automotive sector has tried to take advantage of the single market and the customs union to be able to do that. It is one of the reasons why the UK automotive sector has been very successful.

If you are going to put barriers in place, you will be putting cost in. For all the investment in technology and process that would be required, it would take time. It is not necessarily in the gift of manufacturers, because you are looking at port capacity. If you are going to take a series of engines to a port, put them there, clear them and so forth, it depends on the system. It is very difficult to say exactly how long it would be, other than it will add inefficiencies to the system and that means cost. Given we operate on wafer-thin margins in terms of manufacturing, that would potentially put the UK at a disadvantage.

Peter Hardwick: In terms of primary agriculture, relatively short because it is not that complicated, you are shipping or moving single products. But of course industry isn't necessarily quite as simple as that, and in particular, it is a relatively complex relationship we have with the Republic of Ireland in terms of the way that beef and other products are moved to and from that country, because many of the businesses producing those products in the UK are Irish-owned and they balance their production between the two territories. I do see potentially some difficulties there.

What I can say from a previous session that I attended in the Scottish Parliament is that the UK Shipping Agency made the point that the volume of trade through the Channel Tunnel and Dover has increased from around 1 million vehicles a year to 4 million vehicles a year between 1992 and today. Four million vehicles a year is a vehicle every eight seconds transiting either one way or the other into or out of the UK. It is not surprising that if you were to increase that, just double it, you are talking about a significant slow-down in the pace of vehicles crossing. If it is a minute or 30 seconds, you can have a traffic jam up the M40. I do think there are potential issues there. There are technological solutions to those, needless to say, and they may need some lead time to resolve in terms of pre-clearing goods so that they do not stop at the port, for example.



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Mike Spicer: Just two points from me. For those businesses that export only to the EU, a new customs code will be something very new to them and we would anticipate that a substantial familiarisation and education programme would be needed for that. We support businesses exporting to third countries through our network of documentation staff across the UK, so we have quite a lot of experience of putting on events and all the rest of it, so I think we have some sense of that. Having said that, for businesses that trade mainly with third countries, this will not be entirely new. They will have processes in place; they will have experience in that. At some of the events that we have been doing around the country, you do hear that businesses are already thinking about how they could extend those processes to their European trading activity.

Just one more point: if there is a new UK customs code, what we have heard is that there is the potential for targeted reform in terms of how much we keep from the union customs code. For example, the movement that there has been in recent years towards more trader authentication-type schemes, away from shipment-based documentation, works for some companies, particularly very large ones, but it does not work so well for smaller companies. There is also an opportunity to address some of those issues with the current code.

Q275 **Chris Leslie:** Just to get myself clear about how the car industry works, Mr Hawes, basically I think you have said something like 60% of typical cars' parts come imported. I have heard it said that a lot of the industry in the UK treats the EU as a sort of meta-warehouse in a way, the factory floor concept. Leaving that customs union or impairing that radically turns over the table on the nature of the manufacturing model that the sector would use in terms of just-in-time processes, yes?

Mike Hawes: Yes. I will give an example. At the moment a part will be produced, let's say in Poland. It comes out of that particular factory, it is put on a truck and it goes straight through Germany, let's say into Holland, exported into the UK and will go often straight to lineside, no warehousing, and it is passing straight through the ports and it has a four-hour window of delivery. If you put in additional custom checks in the border procedures as well as the additional administration that all goes along with that in place, you are going to have to build in some delay and you potentially are going to have to build in some additional warehousing. You are doing that for the 20,000 or 30,000 parts that go in a car, 60% of them. It depends, it is not an individual part because you do batch them, but it will add additional cost because it will undoubtedly add time into that transit.

Q276 **Chris Leslie:** So a pretty radical change to the nature of the way the sector puts cars together?

Mike Hawes: Some of our members believe it could be as significant in terms of cost, or at least equivalent to, the WTO tariff.

Q277 **Chris Leslie:** Give us a flavour of margins within that car manufacturing



sector. It is a pretty competitive sector worldwide.

Mike Hawes: It is. It is very competitive and especially in terms of manufacturing. Manufacturers tend not to make a lot of money on an individual car. It is a volume basis. It can vary from manufacturer to manufacturer, but if you look at a car manufacturing plant, the amount of value they are adding is probably maximum about 20% because of the cost of the parts, the components, the raw materials that go in. Then it goes on and there is a margin for sales, marketing and so forth. The value they are adding is about 20% of the total value, but it is a highly-skilled 20%. If the margins are wafer-thin, as they are, anything that adds cost, I suppose the best way of putting it, most manufacturers are aiming for somewhere up to about a 4% return on their investment.

Q278 **Chris Leslie:** Mr Spicer, presumably this isn't just an issue for car manufacturing. Manufacturing more broadly would have a similar issue if this opportunity of the logistics shop-floor approach across Europe is no longer available.

Mike Spicer: We have held quite a few focus groups across the country, where we have had manufacturers from all sorts of industries, from chemical engineering to car manufacturing, a whole range of things. What I have been surprised at is there is quite a range of experiences out there, depending on how the supply chains are configured, just what the import component of their goods are, where they are shipping them on to, what customs codes, what product standards they are having to comply with. It is quite a complex picture. Certainly we have had quite a lively exchange of views in those focus groups.

Q279 **Chris Leslie:** One of my worries is that if the Prime Minister takes a sectoral approach, there is a danger that the type of manufacturing activity that is just outside the definition of that sector somehow will lose out. What is your attitude to this sort of sectoral thing?

Mike Spicer: We do not have an in-principle objection to some sectoral focus. The challenge, though, is that it has to work on two levels. First, it cannot be to the detriment of the UK economy as a whole. The idea that you can trade one sector off against another is one that as a broad-based business organisation, we would be instinctively uncomfortable with.

The other thing is it has to work for the broadest swathe of businesses in that sector. I said earlier about how if there were a new customs code, for instance, there are different models that can work there, from a document shipment based system to a trader authentication system for enforcing customs. But those can work very differently and the cost of those can look very different, depending on whether you are a small business perhaps within a much larger supply chain to being a very large business at the hub of it. The costs and how they fall and the compliance costs differ quite a lot.

Q280 **Chris Leslie:** This is my point: it is not just the actual tariff; it is these non-tariff issues, your ability to quickly move parts to and fro. Give us a



little bit more flavour for the other sort of non-tariff barrier issues that the sectors are worried about in terms of regulatory compliance or convergence. What would they be?

Mike Hawes: A couple of others. Obviously Sir Desmond has mentioned rule of origin, which is important. Basically European content counts as local content, and that is particularly important when we are exporting, as we already do, to outside the European Union.

The other issue is around regulation. We have frequently said it is a highly-regulated industry, rightly so. It is important that what the UK has been very good at is ensuring that in our sector—given the specific nature of the UK automotive industry, with volume manufacturers and a whole stream of specialist premium high-value sports car manufacturers and so on, who have very specific needs—that the regulation is sufficiently flexible to allow for their specific needs. If you look at the European industry, yes, we have more than any of the small-volume manufacturers. Italy has a few, one or two other countries, but we have a lot more than anyone else. The UK's voice at the table in ensuring that we make regulation rather than just take it has been very important.

Peter Hardwick: The agriculture sector, of course, is highly regulated as well. As we leave the European Union, we will want to possibly take the opportunity to review some of those regulations. As they start to diverge, then some of those are likely to bring us into conflict with the European Union in particular in terms of those rules. We face them of course across the world. Non-tariff barriers seem to increase year on year, and in fact we do a very poor job globally of getting rid of them.

Take our trade with China, for example. It is not based on a free trade agreement or anything like that, but on a regulatory arrangement, and the conditions are basically that we have to comply entirely with Chinese food law, which is different from ours. Any manufacturer in the UK hoping to sell to that market needs to adapt entirely to those rules. Some of those of course also bring us into conflict with WTO. If you take the situation, for example, on hormone-treated beef from the United States, which the US are about to go back to WTO on, we need to remember the EU lost that case at WTO. In other words, the ban on hormone-treated beef was judged to be illegal by the WTO and was resolved by the European Union offering additional tariff quota to the US, which they now view as not properly constructed. They are about to start introducing punitive tariffs again on European exports to the United States.

Those things are always there. As we leave and as we look to take advantage in some cases of perhaps trying to make regulation more efficient, because if it is an outcome-based change and the outcomes are the same, why shouldn't we look at trying to simplify things, I do see those as potentially very difficult as we go forward.

Q281 **Toby Perkins:** A quick question to Mr Hawes. I know that many British car manufacturers are not only in a market competition against their



competitors, but also an internal competition against factories in France, in other countries across Europe. In terms of what you were saying there about the impact on the model of being outside of the customs union, can you just say what you think that might do to, for example, the Vauxhall factory at Luton's internal competition against other General Motors factories across Europe? Will it have an impact on the competitiveness for those global manufacturers to build their cars here in the UK?

Mike Hawes: Potentially, yes. You are right that every manufacturer—not every manufacturer, most manufacturers—here will compete with another plant somewhere. It is the global nature of the industry. The UK has been incredibly successful over the last five or six years and just about every single plant has attracted investment. It is because we have the right conditions to be competitive. If you are going to alter that competitiveness by putting on additional cost, it makes it that much harder to win the next tranche of the next product and so forth. Again, no two plants are in an identical position because it depends very much on the nature of the product that you are making, how much capacity there is in other plants in Europe and so forth and obviously the actual cost price as it leaves the factory gate.

Given the margins are so thin and the ability to overcome significant additional cost is limited, given the value that you are adding, it makes it that much harder. The industry is agile. One of the reasons we have been successful is that we have been very competitive and the most productive place in Europe to make cars. That productivity, which is improving and perhaps goes against the general rule across the UK, it is highly productive, but you cannot overcome a 10% increase in costs, for instance. It would take a number of years and you may not get a number of years before your next model decision.

Q282 **Shabana Mahmood:** I want to pick up on a little bit of an earlier discussion around special sectoral arrangements. Obviously we have been hearing a lot about those. In particular, one idea that has been mooted is the idea of a sectoral customs union within an overall FTA with the EU for the car industry specifically. My question is primarily to Mr Hawes. Is that kind of arrangement feasible? From most of the evidence, it seems like a very long and convoluted way to get possibly to something like what we enjoy at the moment, but not definitely get us to that point.

The more general question to all of you is given the impact that that kind of special treatment might have on our other sectors that don't enjoy that kind of special relationship or deal and the impact that has on our domestic economic policy, is that kind of move even desirable?

Mike Hawes: First of all, is it feasible. Obviously we would support an approach by Government that assesses the needs of the whole economy, first and foremost. We do need a degree of sector by sector analysis to do that. We would obviously argue that, not uniquely, we are an important sector. We employ over 800,000 people across the sector and contribute about 12% of UK exports.



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I think in the Government's negotiating objectives, we are clearly trying to seek a way that our current competitiveness is assured. Whether that means a specific sector solution, I am not sure exactly how feasible that is. Certainly we would obviously want to explore it. As I understand it, generally they would have to apply to all goods, all manufactured goods. This is where you get difficulty. It would be quite easy to identify, for instance, if you are looking at the customs union and tariffs and so forth, an engine coming in, a turbo-charger coming in, but we buy steel, we buy chemicals, we buy glass, we buy ECUs. How would you be sure that those particular products are going to go into the automotive sector rather than another sector?

At the moment, where the industry currently sits is just about to undergo massive change in terms of increasing alternative powertrains, electrification and so forth, in terms of digitisation and how you build things and in terms of how the vehicle is owned, operated, used, driven and so forth. The nature of the industry is going to change substantially and you would need something that is sufficiently flexible that would allow you to reflect the demand that is there for increasing digital components, for instance; very hard to define.

Q283 **Shabana Mahmood:** It does not sound particularly feasible.

Mike Hawes: I do not know, but the bottom line is that the competitiveness that we currently have has been built on those building blocks. If they are going to change, and subject to what is said later on this morning, it seems likely that certain of those things are going to change, we need to find a way to retain our competitiveness, otherwise we will lose out. It will be that much harder to maintain the success we have had.

Q284 **Shabana Mahmood:** But it may be that it is that current level of competitiveness cannot be maintained because the options that are available to get what we have now are not really available then you just have to suck it up and find expression for your competitiveness elsewhere, as in look outside the EU, look for other opportunities, that you just have to write off—

Mike Hawes: We do. We already export to over 160 different countries, but by far the biggest is the EU. Just under 60% of what we currently export goes there. It is not that we do not explore other markets, but we have this massive market on our doorstep and are totally integrated within it.

Peter Hardwick: As far as agriculture is concerned, whether it is desirable or not, it almost always is treated sectorally. In the days when it was legal to smoke in rooms, agriculture tended to be settled the 11th hour on the last day in a smoke-filled room. Indeed, the concern that agriculture has at the moment is that because it falls into that difficult category, it does get left behind. While I think we are probably reconciled



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to the fact that agriculture will be dealt with separately, it would be of concern to us that it was in some way neglected.

Mike Spicer: To build on what the others have said, there are examples of other countries that have quite a sectoral approach to their relationship with the EU: think of Turkey with its agreement around manufactured goods and so on. But they tend to be defined in very broad-brush terms. If we want to get a sense of what Mike was illustrating, you think about where we have imposed export bans on things in the past, where we have put a ban on centrifuges and then you have to look at every kind of steel pipe to make sure that it is not one. It is that kind of thing. The difficulty with that approach would be its implementation more than anything and how feasible and costly that would be.

Q285 **Shabana Mahmood:** Specifically to Mr Hawes, keeping on the theme of the car industry and special deals, is there anything that you can tell us about what the Government has said and the undertakings it has given to Nissan in respect of the impact that Brexit might have on their business and how that might be mitigated?

Mike Hawes: Obviously we were not privy to those discussions and nor should we be, but certainly we take that announcement at face value, for exactly what it is. That was a very successful positioning of Nissan. Being able to attract that investment for the Qashqai and the X-Trail is a real boost for the UK automotive sector. As I understand it, clearly what the Government was able to offer, given that we currently remain for the next two years or so in Europe, any deal would be subject to European state aid, so it will have that degree of scrutiny. That does limit the amount of support you can give, so certainly if the Government, as they seem to suggest, is doing all they can to support supply chain re-shoring, to ensure that there is support for training, support for R&D in that region, all that is to be commended.

I take at face value what the Secretary of State for Business, Greg Clark, and the Prime Minister said in various interviews, that this is effectively a deal for the whole industry, that they want to assure the long-term competitiveness of the UK industry. We take that at face value.

Q286 **Shabana Mahmood:** I understand you take it at face value, but do you not have any greater detail that you can share or that you know about exactly what is behind making sure that that face value is implemented?

Mike Hawes: Nothing more than is currently in the public domain, no.

Q287 **Shabana Mahmood:** Your organisation, 30 automotive manufacturers, all met at a round table with the Secretary of State for Exiting the EU last month. Is there anything you are able to tell us about that? Was more light shed potentially on the direction of travel of the Government?

Mike Hawes: We did, exactly, and that was an opportunity basically to go through some of arguments we are going through this morning. The Secretary of State was there to listen, to understand what concerns,



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challenges, and opportunities are there for the industry. We had a number of manufacturers there who set out very much what I am discussing now. There was no clear indication, as you would expect, of exactly where the Government was going to prioritise or what they were going to be able to offer. It was quite clear that the Secretary of State wanted to recognise the importance of the industry and wanted to assure its long-term competitiveness and hence success. However, he recognised that this is part of a wider discussion with many more issues at stake and also, ultimately, will be the result of a negotiation with 27 other member states, so he certainly made no assurances.

Q288 Sir Edward Leigh: We have something we call contingent liabilities—I am talking as a former member of the Public Accounts Committee—and we take a very dim view in Parliament if Government makes secret deals with our taxpayers' money. We have been assured so far that there was no secret deal, no contingent liability that could impact on our Exchequer. You can say, hand on heart, that as far as you know, no such deal was made?

Mike Hawes: As I said, I was not part of the negotiation, so I would not have any insight into anything specific, but nothing that I am aware of. As I said, any deal, inasmuch as it was a deal, would still be subject to state aid review, as it would be if we were under WTO rules.

Sir Edward Leigh: It would have to be reported in its entirety.

Mike Hawes: I understand that Brussels, as it does with any major investment decision with a Government, will look at it.

Sir Edward Leigh: I have just asked the question to put it on the record, but I think we will have to ask this question directly of Nissan.

Q289 Liam Byrne: Very briefly, Mr Hawes, the manufacturing output of this country has not recovered to pre-crash levels. The future of the car industry is therefore pretty important if we are to become this great manufacturing trading nation once again. What do you want to see out of the Brexit deal to see a stronger automotive industry in the future? How can Brexit be good for automotive?

Mike Hawes: First, UK automotive has had its best year in production terms—up until the end of November we have the last figures for—in about 10 years. We are heading, as we currently stand, for potentially an all-time record in the next two or three years in terms of car production. That record goes back to 1972, when the industry was very different and we built for domestic demand and countries that were generally coloured pink on a map. Now we export to over 160 different markets, very much export-led. To a certain extent, we have bucked some of that trend, because we have been growing significantly. That is because we have been competitive. What we want from whatever is ultimately negotiated is the maintenance of that competitiveness.



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Being part of the single market has given us significant advantages and the UK has exploited those advantages to the benefit of UK manufacturing and, I would argue, to the benefit of European automotive manufacturing because we are highly competitive. Essentially what we need is a continuation of as many of the elements of that, plus obviously, as we said, in the past couple of years we never believed that Europe could not be improved and a greater focus on competitiveness and trade would obviously benefit our industry. If there is a positive that we would like to see, it is clearly the opportunity to promote free trade, not just within Europe, but beyond it as well. The Brexit Secretary, the Education Secretary and the Health Secretary Home Secretary

Q290 **Liam Byrne:** But the risks you have set out on the downside, you have come across as a bit nervous about some of the downside risks—

Mike Hawes: Nervousness is mild, yes.

Q291 **Liam Byrne:** What are the upside opportunities you are most excited about?

Mike Hawes: As I said, on the upside, if you can do additional free trade deals. I read or hear on the news about large markets like the US potentially being interested in the UK. That would be attractive. As an industry, we were very supportive of TTIP because we see that being a benefit to the industry on both sides of the Atlantic. It is not without its concerns. Obviously I mentioned the rules of origin. The biggest benefit of something like TTIP though was regulatory harmonisation or convergence. That is where the real economic benefit would be, because in terms of cars, the import tariff on cars exporting to the US is only 2.5%. It is 10% the other way, so there is that imbalance.

Q292 **Toby Perkins:** Turning now to a future UK/EU free trade agreement, a question to all of you, starting with Mr Spicer.

In terms of standards, how would UK divergence from EU product standards after Brexit affect British exports and how important is this aspect to any future deal that the UK reaches with the EU?

Mike Spicer: Certainly in the survey work that we have done, and we conducted one before Christmas, the need to address that question of regulatory equivalence and convergence for this process was one of the top priorities of the exporters that we talked to. It is an important issue. It is important partly because it is a cost issue, as regulatory compliance is, but there is also a kind of broad agreement: I do not think there is a big demand for a unique UK product-standards body in the same way that currently exists through our membership of the EU.

There is a sense of if we are going to trade the world, then there are a number of important product standard regimes—the European Union is one; the United States is another—which in turn have a lot of influence over the product standards in other countries. The more closely we can



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cleave to those the better, but I think it is primarily a cost issue if you are exporting to those countries. The closer we can cleave to that, the better.

Mike Hawes: I would agree. We operate in a very regulated industry. We build vehicles for a European market and those regulations clearly apply in the UK and often apply in other markets. If you look at China, for instance, it is looking to address air quality, it is adopting and implementing European standards, so the ability to influence regulation is critical. Again, equally, we would not like to see a divergence from that standard because the economics just don't add up. Yes, we are an important market, but in global terms we are a small market and the cost of manufacturing a vehicle for a specific, individual market would not be justified. You would see a real contraction in that consumer choice. There are about 400 models on the market, some made in very small volumes. There is no way you would make something just for a bespoke UK regulatory framework.

Q293 **Toby Perkins:** Mr Hardwick, do you know if bananas are going to be any different after Brexit?

Peter Hardwick: I have worked internationally in the food industry and I spent a number of years in Brazil. If you wanted to ship beef to the European Union, you had to have an oval stamp, just like we would have. You had to have your plant inspected and you had to meet European Union regulations in order to ship those goods. There are EU-approved plants in Brazil and there are non-EU approved plants in Brazil. They have traceability requirements that the Brazilians have to meet and so on and so forth. Largely, if we want to trade with the European Union, we are going to be required to meet those rules. Now, you can make variations on those rules in terms of things that are not necessarily material but may be simpler, but the substance has to be met if we want to trade. If we diverge excessively, we might find ourselves in a position where we have plants that no longer meet the requirements and can no longer ship to the European Union. Ultimately, I think the level of divergence is going to be limited by the practicalities rather than anything else.

Q294 **Toby Perkins:** You have already spoken about the potential impact of extremely high tariffs on some parts of the agricultural industry. Can you tell us about non-tariff barriers in the agricultural industry? What would be the consequences of those measures on exports and are there any ways that we can avoid them?

Peter Hardwick: There are lots of non-tariff barriers particularly in the agriculture sector, because most of the time they are used purely to protect industries in domestic circumstances and many of them are to do with divergences on our understanding of animal disease, for example. The classic example we are all familiar with is BSE. Since we had the problem back in 1996, it took us a decade to get back into international markets. Even today the vast majority of non-EU countries will not take British beef because they still impose a BSE-related ban for spurious



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reasons. Those sorts of problems are going to persist probably regardless of whether we leave or not. Indeed, as we leave, we will meet the same sorts of problems. Fortunately, we have within the European Union a friendly partner in that sense, in the sense we have the same sorts of understandings on these non-tariff barriers. I suspect that those non-tariff barriers are unlikely to increase in the sense that we face those problems already.

Q295 Toby Perkins: What role will the issue of agricultural subsidies play in the negotiation of a future UK/EU free trade deal?

Peter Hardwick: As we leave the European Union, and if we become subject to WTO rules, we will have to go through a similar process that the European Union does in terms of defining what fits into the amber, blue and green boxes. We know that the EU has a lot more sitting in its amber box than it declares on an annual basis. Whether we inherit some of that or not, I do not know, but I would suspect that the UK's longer-term view on agricultural support may well take it into a more compliant position than the rest of the European Union. Certainly we will have to address those issues individually as a separate country.

Q296 Toby Perkins: Food security considerations: how much of an impact are they likely to have?

Peter Hardwick: It depends what you define as food security. If we think that that is domestic production, then we need to be very conscious of the fact that if we liberalise trade to the point where very competitively-priced, lower-priced goods enter the UK, that may well be damaging to domestic production. But if it is considered to be access to food, then a more liberal trade arrangement may make access to food easier for the UK than elsewhere. I suspect that UK farmers and producers would be concerned, however, to see cheaper products coming that affected their ability to compete.

Q297 Toby Perkins: Mr Spicer, we have spoken briefly already about non-tariff barriers. What other risks do you see for British exports from non-tariff barriers and what sort of dispute resolution procedure would you like to see in place as part of a future free trade agreement?

Mike Spicer: Briefly on the non-tariff barriers, I think, as Peter said, there are some that already exist and we will continue to be subject to. Whether that becomes harder to address because of the nature of our relationship remains to be seen, but the obvious ones would be particularly in the trade in services, where there have been longstanding issues around protected professions and so on. Those will continue to be there. There are niche areas in the trade of goods that continue to be there and areas that are in dispute as we speak, so those will still be there.

In terms of a dispute resolution mechanism, it is not something that we have tested with our members or that we have a particular view on, I am afraid, so I do not feel qualified to be able to say anything on that.



Toby Perkins: Do you have a view on that?

Peter Hardwick: I could volunteer a view, and that is that we would perhaps like to avoid the current complex one that operates within WTO, which is always lengthy and slow, so something more efficient than that would be preferable. In fact, it is perhaps deliberately slow, because in the end people try to reach a gentlemen's agreement before they get to the end of the process, because even if you follow the current programme within WTO for dispute settlement, you are looking at a two, two and a half year process. We are aware of disputes that have been running since 1995 and remain unresolved, so something simpler is the answer, I think.

Q298 **Sir Edward Leigh:** Obviously Mr Trump is in the news this week and he announced yesterday that he wanted to do a free trade deal as quickly as possible with the UK and he said it has to be the right free trade deal. I don't quite know what he means by that—any intimation would be gratefully received—but how do you think it is going to work out? I do not know who is going to answer this question, but what might a free trade with third parties deal look like? How would it differ from the free trade deal that the EU already has with third parties? Of course the EU is notoriously slow at making free trade deals with third parties; we know that. Do you have any views on that?

Peter Hardwick: Free trade agreements are rarely free trade agreements. In fact, they should just be called trade agreements.

Q299 **Sir Edward Leigh:** Sorry to interrupt you there. So there is no real sort of pure free trade agreement?

Peter Hardwick: There are very few. The only one that we have is effectively the one we have with Europe.

Q300 **Sir Edward Leigh:** Europe doesn't have any pure free trade agreements with anybody else then?

Peter Hardwick: It does not, really. Again, I have to limit it: I am not an expert in services or the car industry, but agriculture certainly tends to end up—even if you look at the trade agreement with Canada, the agriculture sectors have some limitations, in terms of tariff rate quotas, total volumes and so on. Even then there are other issues that get in the way. We have just talked about non-tariff barriers. A classic example of this is that the Canadian beef industry is limited in its ability to ship beef to the European Union because they use anti-microbial washes and those are not allowed in the European Union. Effectively, while they have access under quota, they do not have access under technical rules. I would suggest that free trade agreements in the agriculture sector will probably continue to have some limitations through tariff rate quotas.

Mike Hawes: In the automotive sector they are freer perhaps than agriculture, and you would certainly be aiming for zero tariff and the minimisation of any non-tariff barriers. I mentioned before the concerns



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you would have about rules of origin, given the integrated nature of the supply chain. It is always encouraging if a world leader—or world leader elect—says that they are interested in doing a free trade deal. I think some of his other comments about automotive manufacturing and plant location just south of America mean you would have to scrutinise to make sure it was very much in the UK's interests.

Q301 Sir Edward Leigh: What are the risks? It is going to be difficult to answer, because we are not clear what a free trade deal would look like, but I presume the risk with a free trade deal with Australia or New Zealand might be quite few, but with China they might be quite great. I do not know.

Mike Hawes: As you rightly recognise, they do take years to negotiate and you need to make sure that you are creating an agreement that will enhance the prospects of UK business. In our terms, Australia and New Zealand are interesting markets, but they are relatively small. I think we exported about 3,500 cars to New Zealand last year. With China, a massive market, the world's biggest automotive market, but again, the nature of that market is quite different and you need to make sure that you have the opportunity to enhance the prospects of the sector you are responsible for.

Q302 Sir Edward Leigh: It is an obvious point though, that on the day that we leave the European Union, as far as your industry is concerned, every single last directive, rule, law, will be put into our—we will have equivalence, won't we? There is a technical term, equivalence, isn't there? In theory, if you have equivalence, the EU has to do a free trade deal with you. In practice, it is down to politics, isn't it? If they want to do, they can do it. I am not saying they are going to do it, I am not saying they want to do it, but from a technical point of view, they could do it.

Mike Hawes: If you are assuming that all the current legislation is wrapped up into the Great Repeal Bill, then you do have that equivalence, but obviously you then have to make sure that you continue to maintain that equivalence, because basically the rules are not going to stand still.

Q303 Sir Edward Leigh: I understand that, yes. What will be the priorities if we are doing these free trade deals and we are not in the EU? What will you be looking for?

Mike Hawes: A free trade with whom?

Sir Edward Leigh: Let us take an example: America.

Mike Hawes: As I said, it would be the reduction of tariffs; it would be increasing regulatory harmonisation or certainly mutual recognition, because that adds significant costs to build to a European standard and then build a car to an American standard and test and so forth. You would want mutual recognition of standards. That is where the real



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benefit would lie. Less so, as I said, in the tariffs, because it is only a 2.5% tariff on importing vehicles into the US.

Q304 **Liam Byrne:** Regulations are worth more than tariff? Harmonisation and regulation—

Mike Hawes: Yes. In terms of the US, yes.

Q305 **Sir Edward Leigh:** Yes, I wanted to push you on that, because we hear so much about tariffs, but it is more the processing of the components and how they are regulated, the rules of origin. That is much more of interest to you than actual tariffs?

Mike Hawes: It depends on what country you are looking at. Other markets may have a 30%, 35% import tariff or higher, so again, you have to look at what the regulatory environment is, what the tariff structure is. No two countries are identical.

Q306 **James Cleverly:** Mr Spicer, I am going to turn to you. In your submission to the Committee you said, "There is scope to consider in depth the merits of establishing free trade zones in the UK". Could you expand upon that a little bit and just let us know where you might envisage those free-trade zones existing?

Mike Spicer: Yes. A free-trade zone is a geographically defined area, usually quite small, usually based in and around a seaport or an airport, which is clearly fenced off, if you like, from the surrounding areas. They are typically used as places where goods can pass through, so they can be landed and then exported somewhere else, modified perhaps in some way. There are examples of free-trade zones right across the world. In general terms the benefit of looking at free-trade zones is that role that the UK plays as a sort of distribution centre for third countries looking to trade with the EU can be addressed through that in some way. It is one of many policies, but I think what would need to be considered is first the practicality of it— you cannot just draw a thing on a map and say, "There it is"; there is an infrastructure has to sit behind it as well—but it is something that we have said ought to be considered without prejudice.

Q307 **James Cleverly:** When you say it needs to be discrete, perhaps secured off, for example, I make no apology for going uber-parochial at this point, I have Stansted Airport just to the one side of my constituency and I have the Ipswich, Harwich, Felixstowe seaports to the east of my constituency. If we were to say within the secure perimeter wires of those things we would declare free-trade zones and have transit as well, but you also said something about processing, so there could be manufacturing processes within those wires as well?

Mike Spicer: Yes, and I think that is one of the things you would have to take into account when looking at the location of these things. Certainly where they have been introduced more recently in other parts of the world like China and other places, they have tended to be part of a wider local economic development plan that has included both the location of



manufacturing plants and the colocation with major transport hubs and so on. If you were looking at it in the UK, of course in a sense we are looking at it retrospectively, we are looking at how that can apply in a mature economy where there are already supply chains in place and so on. That is why it would need to be quite carefully considered in terms of how it was used.

Q308 James Cleverly: I have been reading into this subject a little bit. I read that they tend to be in seaports, airports, which we have discussed, but also in border areas. Obviously at the moment, the Secretary of State for Northern Ireland is trying to manage some real difficulties there. It seems that you have Northern Ireland, which will have a land border with the European Union and could well do with a bit of an economic boost. How physically big? I am guessing that the whole of Northern Ireland would be too big for a free trade zone, but that border region, could that perhaps be an example?

Mike Spicer: I think there would need to be a comprehensive study of what the effects of that would be. Certainly speaking to members in Northern Ireland, as we do through our focus groups and through our service, the issue of having a workable solution to the border issue and ensuring that if there is a new customs code for the UK, it can be managed without the need for a hard border, whether that is a technological solution that might be viable within a relatively small area like Ireland, or whether the solution is in fact some kind of free trade zone that is bigger than perhaps it is elsewhere in the world, they are all things that have to be considered, certainly.

Chair: Thanks very much, gentlemen, for your evidence this morning. No doubt in light of what is going to be said shortly, we may be back in touch for clarification. Thank you very much.