Select Committee on the European Union

Internal Market Sub-Committee

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

Thursday 19 January 2017

11.45 am

Watch the meeting

Members present: Lord Whitty (Chairman); Lord Aberdare; Baroness Donaghy; Lord German; Lord Green of Hurstpierpoint; Lord Lansley; Lord Mawson; Baroness Noakes; Baroness Randerson; Lord Triesman.

Evidence Session No. 7 Heard in Public Questions 64 - 76

Witnesses

I: Rt Hon Matt Hancock MP, Minister of State for Digital and Culture, Department for Culture, Media and Sport; Lord Tariq Mahmood Ahmad of Wimbledon, Parliamentary Under Secretary of State for Transport, Department for Transport; Dr Jesse Norman MP, Parliamentary Under Secretary of State, Minister for Industry and Energy, Department for Business, Energy and Industrial Strategy.

Examination of witnesses

Rt Hon Matt Hancock MP, Lord Ahmad of Wimbledon and Dr Jesse Norman MP.

Q64 **The Chairman:** Good morning. Sorry to keep you waiting. I am very glad that you could all make it. We have a wide-ranging agenda, which has altered in some of its dimensions as a result of the Prime Minister's speech. Some of our questions may be altered slightly; possibly, some of your answers may be even more substantially altered. If any of you want to say anything in opening, you can wrap it up in the answer to my first question, which is slightly less technical than the one that you have been notified of.

We are looking at services trade. We now know that we are not going to be a member of the Single Market or of the customs union, at least in its present form. The customs union has not directly impacted on most services, although it does indirectly, particularly on transport. The problem of access to the Single Market and any free trade agreement is that issues are raised of equivalence or differentiation of the whole regulatory framework in which the industries that you sponsor operate.

We will ask you a few general questions to start with, but we will then focus on some of the individual services. We would like to have from you your general response to these opening remarks, your general take of how services within the responsibility of your departments will adapt or otherwise to the fact that we will not be part of the European Union or the Single Market, which means that the whole structure of regulation becomes important. Who would like to begin? As I say, if you want to raise any other issues on the record immediately, please do so. This is being recorded and broadcast, so it is all on the record. Who wants to kick off?

Rt Hon Matt Hancock MP: In the first instance, I hope that in this hearing we can take the Prime Minister's speech as read. As you said, it set out with clarity a great deal more detail than was available hitherto. I hope also that you will understand the limitations on the details of some of the things that we can say because of the nature of the negotiation, but we will try to be as helpful as possible. In terms of digital services, there is not yet a complete Single Market, but there are a lot of areas where we need to ensure that we have a good deal. That is the approach that we should take, but there is the broader question, for which Jesse is responsible.

Dr Jesse Norman MP: Well, with that kind introduction, what to say? I can just about see you at the end, Lord Whitty—you are some distance away. In her speech, the Prime Minister made a series of important conditioning statements from our point of view. The first is that no deal is better than a bad deal, which is to say that the UK stands on its ability to trade internationally whatever the outcome of the negotiations with the EU and is not afraid of that possibility. That relates to a second point, which is that this country has always been global, international and trade-oriented, with an economy that goes with that. That in a way goes to a third point, which is that much of what she was saying not merely was about protecting and recognising the strengths and the historically unusual nature of the British polity, constitution and economy but also went to the question of what government can be doing to support that and, therefore, the importance of certainty and of having an industrial strategy that is adaptable to the circumstances.

I speak to you with the enormous accumulated knowledge of six months in my department and one week as Minister for Energy. In those six months, I have among other things co-chaired the Professional and Business Services Council, whose testimony to you I have read and, of course, the submission that we [1]made. What comes through from that clearly is that around the world we are a powerhouse in this area; even

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[1] The witness wished to replace "we" and insert: "the business members of that Council".

outside financial services, which are most recognised, we are a powerhouse. Not all these services are the same. Our exports in financial services are much larger in trade surplus terms than is the case with non-financial services. Nevertheless, we are a powerhouse.

The other thing that comes through is that we are prominent in areas that have very high value added. Therefore, if you talk to the different industries, as I have done, in this sector and elsewhere, you get a tremendous sense not only of their depth and strength but also of the fact that they are unafraid of trading, because they have sufficiently high value built in to the services that they offer and they are sufficiently flexible to be able to orient themselves around new trading conditions. So there are concerns—there is no doubt about that—about professional recognition and non-tariff barriers, for example, but I have been impressed by the degree of positivity and confidence with which they are facing the prospect of change.

Lord Ahmad of Wimbledon: I feel like one of the hosts here, so it is right that I should speak at the end. First, I endorse what Jesse and Matt have said. The central point of the Prime Minister's speeches yesterday and today, when she addressed doubts, was clarity. Since the vote to leave the European Union, questions have been asked about our position on whether we would stay within the scope of the Single Market. Irrespective of what the opinions have been since the Prime Minister cleared up that point, saying that we would not be, I think that that clarity has been welcomed, because it sets the parameters and premise on which discussions and negotiations will take place.

You asked, Lord Whitty, at the start about the transport sector specifically. It is an area, particularly in aviation, which is what I look after, where we have often led the way across the board, not just in the European context but in the global context. Of course, there are many elements, which I am sure we will go into later in this session, relating to the mechanics of how these agreements would work. Suffice it to say at this point, when you look at areas of air services, undoubtedly the European market is important to us, as is the UK market to European operators. There is a great sense of the need to work in a positive way to ensure the kind of access that we currently see for operators on both sides of the negotiations that will take place.

The Chairman: Thanks very much. We all recognise that there is great strength in the areas that we are talking about and a great record both within Europe and globally. The issue now is how they adapt to the new situation. The written evidence and some of the oral evidence that we have received so far has assumed that, in some sense, we will be in the Single Market or that we will get a sectoral agreement that in effect brings that sector into the Single Market. That has moved on, so I think that some of the industrial evidence will have to change; we would expect to see some supplementary evidence, at least from certain sectors. However, if nobody has any general remarks to add, we will go on to the next question.

Q65 **Lord Green of Hurstpierpoint:** Starting with getting our minds around the dimensions of services trade, one thing that we wrestled with and heard views on is the sheer difficulty of understanding how big the services' international position is. If one thinks about it in specifics, if a services company sets up an office in Beijing and invoices clients from there, how if at all does that appear in a British current account? This is shrouded in a fair amount of uncertainty which the ONS acknowledges. Any strategy for the support of services as we go into the new era where we trade proactively with the wider world would surely need underpinning by a better database than we currently have. We have had suggestions that services trade through the so-called mode 3 route, which is what I just described in a specific example. That could be anything up to double or even treble the published amount of services income. As an aside, I think that it is improbable that it would be that big because I cannot understand how we would continue to show a large current account deficit if that were true. But there is sufficient uncertainty about this that I would worry if I were trying to set any meaningfully specific strategy for the services sectors about the quality of the information we have. The open question is: what is the Government's approach to dealing with this widely recognised problem?

Dr Jesse Norman MP: May I engage with that in the first instance? I think the point is very well taken. As we know, the Government were sufficiently concerned about the statistics they were getting to essentially invite Charlie Bean in to review the ONS. I think Matt ran that process and he can comment later if he wishes. Charlie came in, kicked the tyres pretty hard and came up with a lot of recommendations for change so there is no ambiguity about that. The deeper problem is that I am not sure that the world trading authorities themselves have a close grasp of how to manage this issue. That is connected to the emergence of this new vogue phrase, "mode 5". The question is how you classify what some refer to as "services in a box": the value of the software that comes pre-packaged with your computer, or the number of computer lines embedded in the car you buy. So I absolutely share your concerns that we may be some way from having a decent grasp even of the numbers themselves. In that context, to make grand policy becomes extraordinarily difficult. One can indeed make micro policy at the sectoral and supports-for-export levels, but it becomes harder from the overall, macro perspective.

Rt Hon Matt Hancock MP: The measurement of trade in this area is famously difficult, as is the measure of GDP. The closer you get to markets that involve information or data as the traded commodity, or anything that is infinitely replicable, of which information is obviously the single biggest thing, the more difficult it gets. Indeed, you can end up having an improvement that appears to reduce value because it reduces the monetary value of a transaction while improving a service in an immeasurable way. We have loads of examples of that happening in the digital markets. So it is difficult domestically, let alone when you then start to trade it. In a sense, that does not really matter much because we know from hard data that we do have, such as on employment and jobs, that Britain is really quite good at this digital stuff and our services and business services are excellent. We know enough to know that that is important and therefore we know that it is important to get the freest possible trade in goods and services between Britain and the rest of the EU.

While acknowledging the challenge—I funded Charlie Bean £10 million to try to answer this question and he is working on it—in a sense I think we can park it and say, "Okay, we know that the data are more or less the best we can do. They have all the uncertainties of normal data collection plus a load more. Now let us get on and try to do the best possible deal."

Lord Green of Hurstpierpoint: I just have a comment on your very helpful responses. Your points are well taken: we will never know down to the last pound and penny, but I think it is likely that we can do a better job than currently and we need not wait for the world trade authorities to get their minds round the problem because you do this on a sampling basis. The importance of doing this is at both the central and macro level, and it would remove a risk that is otherwise there that we assume that the manufactured goods sector is not as important—we need not worry too much about the goods sector because we have a robust trade-oriented services sector. The slight difficulty of that is that we do not really know how robust the services trade is, or whether it is enough to cover what is manifest in the national accounts at the moment—a yawning trade and current account deficit.

Rt Hon Matt Hancock MP: I think so up to a point. You can use some hard data such as tax receipts and jobs to get a decent enough handle on this to be able to know the relative importance of different sectors.

The Chairman: Thanks very much. We have two or three other general questions before we come on to sector-specific ones.

Q66 **Lord German:** Can I take you to the issue of free movement? We had lots of evidence from witnesses that the free movement of EU labour is vital to our economy and that retaining access to that labour pool was essential to us if we are to continue to thrive in our cross-border services, fill skills shortages, get the best talent and remain competitive. Do you think that restrictions on that sort of free movement will constrain our economic development, particularly in higher education, on which we had some powerful evidence? When you prepare your negotiating strategy on this matter, how do you answer that question of retaining that access to the market pool? How does that free flow affect the services and what weight will you give to that issue in the upcoming negotiations?

Rt Hon Matt Hancock MP: Well, we will continue to attract the brightest and best to work or study in Britain. Undoubtedly, attracting the brightest and best in the creative industries and in digital is the main concern we picked up from industry, but that process must be managed properly so that the immigration system serves the national interest. That means having control over the numbers. I think this was an absolutely essential part of the referendum debate and a key part of the conclusion that I think is perfectly reasonable to draw from the vote. Alongside that, we must make sure that we have domestic training in place and perhaps an extra focus on that. But undoubtedly, as the Prime Minister said yesterday, openness to international talent must remain one of this country's most distinctive assets.

Lord Ahmad of Wimbledon: If I may add to that, which is a crucial point, even if you look at our time before membership of the EU, or during it, the UK has been and always will be hugely attractive to people more globally. We want to attract that talent in, across all sectors. Even now when you look across the UK, many different industries have attracted that kind of talent from across the globe, beyond the EU. But of course there is the particular issue of EU nationals, and the question of migration and immigration will be part and parcel of the discussions to take place. Of course, that has yet to be determined and decided upon.

Lord German: Can I just come back to this matter? You talk about controlling the numbers. Do you intend to control the numbers of, let us say, students who come to the United Kingdom to study here, and who gave us £4.2 billion of income, as Universities UK tell us? That number is crucial for the universities' well-being. Equally, of course, if you look at it as a two-way flow then companies continually providing services need access the other way round to be able to deliver to the rest of the European Union. How does this work when it comes to controlling the numbers of highly skilled people, if I define those in terms of students? How does that allow for that free flow the other way around, for our services to be delivered in the rest of the European Union?

Dr Jesse Norman MP: Perhaps I can just chip in on that. Of course, it is a little hard to respond to the specific question, what with my not being anything to do with the Department for Education. Can I just draw a distinction between having control of immigration and how you exercise control of immigration? The position so far is that the Government are determined to make sure that it is perfectly clear that, within the proper exercise of sovereignty, they have control of immigration, thus returning us to the terminus ante quem[2] before immigration became as widespread as it is today.

Now, that is a different matter from deciding how that control will be exercised. If one thing has come through perfectly clearly from recent speeches made by the Prime Minister—of course these things are being handled in a very careful way at the top level of Government—it is the pragmatic approach that is being taken to understand the well-being of and the opportunity for the UK. I think this will find its place within that as part of an overall negotiation.

The other thing to say is that it is not at all clear that the following two statements are inconsistent with each other: "Immigration has been of net benefit to the UK", as many people believe it has been; and, "A different immigration policy might have a higher net benefit to the UK". If

[2] Limit before which

that is the case, it is perfectly reasonable to try to explore how a better immigration policy could have a higher net benefit to the UK. That is before you come to the other concerns that the Government can properly have about support for younger people who might be disadvantaged as a result of immigration in the way they set out in their jobs. This is at the moment perfectly properly subject to consideration by the Government, but I do not think that anyone should have a sense of panic about it. One should just watch the process through to its conclusion.

Lord Lansley: On this point, you will be aware that when many in those EU institutions talk particularly about the free movement of people, they say, "Actually, that free movement of people to work in other parts of the EU is the essence of free movement of services. To the extent that you restrict free movement of people, you will necessarily restrict free movement of services". What I am trying to grasp at the moment is that when we are in conversation with many service sectors, as we have been, they tell me that they are trying to see how they can get the situation in the future broadly to where it is today: that they can do inter-company transfers, post people to other offices and recruit without any impediments. For them, that is what friction-free or frictionless trade looks like. It is actually often about people. Can you give us any example of where you think the future EU-UK trade in services, which is essentially about moving people to and fro, would be restricted in a way that is currently free?

Rt Hon Matt Hancock MP: Trade in services is not about moving people to and fro, largely, but about delivering services into another market. Digital services are largely done by somebody sitting at a computer in one country delivering services into another. You could think of the provision of film or media content, or of most of the creative industries. Of course, there are things that sometimes involve needing to go to perform, but British performers go all over the world. You do not need a system of complete free movement to do that. I am not sure that it is credible to align trade in services and no controls at all on free movement of people.

Dr Jesse Norman MP: It is worth saying one other thing: if one talks to the firms—as you will have done, Lord Lansley—it becomes clear among the larger firms, if not necessarily the smaller ones, that there is an enormous amount of flexibility. It is a matter not just of moving people to see clients but of the possibility of setting up local offices or shifting staff between one and the other. We have just seen several large banks, which will remain nameless, indicate that they will do that. That has trade implications for us that are not all necessarily bad. It shows that you can be a highly successful, UK-based firm able to mutate your business to fit business conditions.

Lord Green of Hurstpierpoint: On students and movement, Jesse Norman said that it is not inconsistent to say that immigration has been a net benefit and that we could have a better immigration policy. That is true. Two statements that are not merely not inconsistent but where one follows from the other is, first, the Prime Minister's statement that we want to be, as we always have been, open to high talent from all round the world—a very open talent recruiter, if you will—and, secondly, that we want to be open particularly to students in the tertiary sector, because that feeds our market for potential skills later on and is of course a substantial net foreign exchange earner. Does the general strategy not imply a commitment to being very open to students coming to this country?

Dr Jesse Norman MP: I think it implies a commitment to being open to talent. The case that you describe, Lord Green, is tertiary education, and that is right. A key point is that if you run what are called world-leading—I am sure one wants to go further down from that—labs and you can import PhDs or use UK PhDs, it would be nice to think that we had an immigration system that encouraged you to use the domestic talent if you could rather than reach for that from outside, provided the quality is at least as good. Interestingly, another point of potential contrast that you might have mentioned comes in with the tremendous investment in innovation and research announced in the last Budget. Now, that implies a global availability for talent to base itself in the UK. Interestingly, picking up the point that Matt made earlier, if you look at many service sectors where you have an increasingly globally mobile population and you ask them where they would most like to be, many of them will say Menlo Park but many will say London—and not without reason. Increasingly, by the way, they will say Bristol, Manchester and other parts of this country, or Edinburgh.

Lord Green of Hurstpierpoint: All of which are strengths that we should surely be building on as much as we conceivably can.

Lord Aberdare: I just wanted to pick up the point that Matt Hancock made about how services are delivered. The evidence that we had seems to indicate that mode 3, where you have a presence in the overseas market, is either twice as much as the other three modes combined or 55% to 60% of the total. That would seem to be slightly at conflict with the argument that many of these services are delivered from here rather than having a local presence.

Rt Hon Matt Hancock MP: A local presence does not require an uncontrolled immigration policy. The point I was trying to make was that—maybe I can refine how I put it—we have significant trade in services with others parts of the world, too, where we have a controlled migration policy. We will always need immigration, especially high-skilled immigration. You can design an immigration system that benefits the UK while also having control from this Parliament, including support for the service sector and ensuring that we are attractive globally for top talent. Crucially, that is looking globally for top talent where hitherto the immigration system has been completely free with 27 countries and tight with others. There is an opportunity to rebalance that once you end free movement with the 27.

Lord Ahmad of Wimbledon: One final point on that, if I may. First, as Matt said, that is an extremely important point. Again, when you look at the UK's position in a global setting, the ability to attract people from beyond the EU based on the needs of the country has not been an impediment. We will be in a new environment where our immigration policy will reflect the needs of the United Kingdom in an era outside the European Union. The comment I wanted to make is that the issue of skills was briefly touched on, and the need to attracts skills in. The other area of focus where the Government have spent and continue to spend a great deal of time—I speak as a previous skills Minister in DfT—is investment made not just in the tertiary and university sector but in the education sector at a very early stage. This ensures that where a talent is required, those particular needs are reflected in early-stage development, whether it is our primary or secondary schools, and then subsequently in the university sector with degrees and further education. A case in point would be the issue of skills shortages in engineering across the piece. The Government are very much focused on ensuring that the challenges we currently face for large infrastructure projects in train or being developed are met not just by attracting global talent, but by nurturing domestic talent through greater investment at a much earlier stage in a person's learning.

The Chairman: I do not want to delay things too much but before we leave this issue there is one other point. While I can see that the freedom of the sectors to recruit could be protected in almost any arrangement to a large extent, there are also issues of principle. The issue of principle as to why the Prime Minister does not think we can continue to be a member of the Single Market is that we want control of immigration. But principles work both ways and the EU's position is that an agreement of any sort for access or at least membership of the services sector in this case depends on free movement. The only country that has a sector agreement structure with the EU, Switzerland, had to accept freedom of movement. It has proven difficult between Switzerland and the EU, but it has been part of the agreement whereby some service sectors have free access to the European market from Switzerland. So it is not just an issue of practicality and of recruitment freedom. There is also an issue of principle here that must be overcome if we are to maintain the degree of access to the market we currently have. That has implications for your sectors, does it not?

Dr Jesse Norman MP: I do not know if that was question, Lord Whitty, but let me just respond. Of course, this is a two-way street. We are running very large financial and other business professional services markets out of the UK which other countries have a great interest in sending their people to, as we have a great interest in sending our people to them. So there will be a negotiation about what this looks like. I am not sure I would necessarily want to generalise from this Swiss experience, for two reasons. First, we have different characteristics, historical relationship, size and strengths from Switzerland. Secondly, the degree of flexibility that may be shown by the Government as regards the different needs that they have identified, subject to the overwhelming need to maintain control, will be the determining factor. So, as I said, we must wait to see the fruits of the negotiation.

The Chairman: Thanks very much. We move on to another general subject: data and data protection.

Q67 **Baroness Donaghy:** Witnesses said it was important to ensure the free flow of data between the UK and the EU as part of our inquiry. We note that the Government plan to adopt the General Data Protection Regulation when it comes into force in 2018. What work is the Government doing to ensure that the UK meets the EU's adequacy data requirements if the UK were to leave the Single Market in 2019? Secondly, are you concerned that the European Court of Justice might take issue with the UK's Investigatory Powers Act? Some have commented that that has more statutory weight in the UK than anywhere else and might cause problems in future.

Rt Hon Matt Hancock MP: On the first question, of course, we are opting in to GDPR. Opting in is the wrong phrase: it will come into force in the UK and we will put through domestic legislation to make that happen and make us compliant. We want to have a free flow of data with the rest of the EU. As Jesse said in response to the last question, there is a great interest in the rest of the EU for having a free flow of data with the UK—as it has with many jurisdictions, including the Americans. So we will look for an agreement that has free flow of data in it. When it comes to the IP Act, there is court case but we are very confident that the Act is consistent with both GDPR and the fundamental rights of the EU.

Baroness Donaghy: This is obviously a bit more difficult to answer, but there is an irony in that, in 2018 we will adopt an EU data protection regulation. What is the thought for the future after that, as and when changes take place in standards?

Rt Hon Matt Hancock MP: Well, I am looking forward to taking the legislation that underpins compliance with GDPR through Parliament. This is the first instance of a much anticipated discussion: people pointing out that I am a Minister taking through a piece of European legislation while also supporting our exit from the European Union. I have looked forward to this and you made that point for the first time. I am pretty sure it is not the last time it will be made. The truth is that the GDPR is a good piece of legislation. We support it. We worked very hard to improve it as it went through its European processes. We got it to a place where we are very happy with it. Therefore, it is good legislation to bring on to the statute book. Then, with the great repeal Bill, it will become fully British law upon exit. Now, that gives us the opportunity, should we wish, to change it thereafter. However, it is very close to where we would want to be. Some people say that we should try to reduce some of the burdens in it. We would want to be very careful that anything we did to make compliance easier would also ensure that we could still carry on with the free flow of data to the EU, protect privacy and uphold data protection. We are very lucky in the UK to have had a Data Protection Act for at least the last 19 years—actually, longer than that—with a broad consensus of support behind it. GDPR also has that broad consensus of support. Therefore, I look forward to making the argument in the other House—as will, no doubt, a DCMS[3] Minister in this House—as it comes through that it may be European in origin but it is a good piece of legislation.

Q68 **Lord Mawson:** I am an entrepreneur by background and I suppose I know from experience how entrepreneurial cultures work in practice. I spent a lot of my life interested in how the machinery of things works. I can often listen to lots of stuff up here but I have spent my life inside the machinery worrying about the linkages and how you make it work. Lord Ahmad and I know, because we have grappled with some of that EU machinery together, that a lot of it did not actually work in practice and in detail for entrepreneurs in the north of England. We struggled with some of that together to try and make it work.

I thought the PM's speech was very thoughtful and helpful as a practical person trying to move forward, but some of the witnesses we met were concerned about the two-year deadline on negotiating the UK's future trading relationship with the EU, pushing the Government to prioritise a transitional deal. If the UK leaves the Single Market, what will the Government do if no agreement is reached by April 2019 on the terms of the UK's trade with the EU, particularly for issues such as data protection and free movement, or sectors such as aviation and audiovisual media services, for which relying on WTO terms is not an attractive option?

Rt Hon Matt Hancock MP: The PM has said that no deal is better than a bad deal. I am confident that we will be able to get a good deal and that that is the approach that we will take. We will work hard to get a good deal that serves the British interest, but I am confident that, especially in these areas, a good deal will also serve the interests of the rest of the European Union.

Lord Ahmad of Wimbledon: Again, I agree with those sentiments. The Prime Minister has been very clear about the importance of this. Anyone who has been involved in business negotiations doing a deal will know that it is a case of ensuring that you get the best possible outcome for the organisation or institution that you are representing. What the Prime Minister is seeking to do is to get the best deal for the United Kingdom. You mentioned some of the challenges posed by European funding. Yes, areas of the United Kingdom have benefited from it, but equally we have been restricted by their application. You mentioned—and I recall—the practical difficulties with certain programmes, such as the ERDF, which we wrestled with at times. Equally, we made representations that, if funding mechanisms do not work for the very businesses or areas that they are seeking to assist, it is the mechanism that needs to be looked at.

You asked specifically about aviation. I just want to put this into context. In the international aviation market, the UK is a major player. I am sure that you are all aware of the UK's position in aviation. On a global basis,

[3] Department for Media, Culture and Sport

we are number three in the aviation market and we are the largest aviation market in Europe. At this juncture, it is important to say that, not just during the discussions that have been had post the referendum but even before that, the UK market has been as important to European airlines as the UK having access to Europe. This is a two-way street, to quote one of my colleagues. In this negotiation, it is not just the UK looking at this. Many Europe-based airlines operating in the EU accept the importance of access to the UK and the UK aviation market. Equally, there are interests beyond the borders of the EU. For example, we are under the EU part of the arrangements for the air services agreement with the United States, so let us not forget the importance of the UK component of the access that that provides to US operators. I have already had many representations from and meetings with airlines that are not UK-based—American Airlines and others—which are very keen to ensure not just a smooth transition but the kind of access that is currently enjoyed by airlines on both sides of this negotiation. The details, of course, will be worked out.

You asked specifically about the two-year deal. It is important to recognise that the great repeal Bill will take EU legislation and replicate it in UK law to ensure a smooth transition. This is an opportunity not just to dismiss EU legislation. Certainly in the aviation sector, the UK has been leading on issues of safety and security, for example. Our European partners look to us not only to continue to play a role but to continue to play a strengthened role as we move forward in this important area. If we look at the global picture, areas of safety and security are of course very important to people.

Lord Green of Hurstpierpoint: Building on the question of the timeframe, what both of you have just described has the ring of truth. It will take a lot of complex discussion both with the various sectors and with European counterparts. Is the Government's realistic expectation that this will all have been done at the end of the Article 50 period? That is the first question.

I have a second question, if I can be so bold. In the event that it is not, the great repeal Bill will take in the existing state of regulation as determined by the EU and make it UK law. That I understand. What it will not address is the tariff position on day one after Article 50 if there is no free trade agreement. A bit more clarity on how what is now regularly called the implementation phase works would be helpful.

Rt Hon Matt Hancock MP: The key here as to why it is reasonable in a two-year timeframe is that the deal that we are seeking to strike starts from the basis of harmonisation and is a question of where we want to keep harmonisation, rather than starting from the basis of two completely different systems and then entering into the process of harmonisation, which is one of the most difficult parts of most trade deals. Of course there is a lot of work to do and a lot of work is going on, but we start from the position of harmonisation. What is interesting in the context of GDPR, on data, is that in that case there is movement on the part of EU legislation as well as Brexit at the same time. Hence the decision to bring it into UK law, in order for us to be harmonised at the point of departure. I see comparisons with other trade deals that the EU has struck, some of which are discussed in the media. Striking a trade deal with a country that has a different system is a very different kettle of fish from seeking a future trading arrangement with a group of countries with which we have a currently harmonised system.

Lord Green of Hurstpierpoint: Do I understand by that that you believe that it is realistic to have done the trade deal by the time we exit the EU on the completion of Article 50?

Rt Hon Matt Hancock MP: Yes, I do.

Lord Mawson: I have a supplementary question, because it seems to me that the present environment presents a fantastic opportunity for a different kind of conversation, which starts to embrace how the modern world works. In my experience, it will be led by innovators and entrepreneurs. Part of the old world that we had created was all about bureaucracies talking to bureaucracies; they love one another and they talk the same language, be they large businesses or pieces of government. In my experience, SMEs talk a different kind of language, because they are quite different, although they sometimes get packaged up together. Part of what I am worried about is how we ensure in this new environment that we learn the lessons of what SMEs are about. Ultimately, they will drive the economy and they need to be able to grow, but they do not speak the language of or behave in the way large bureaucracies do. How do we learn from them, create a learning by doing environment and liberate that environment, ensuring that the people who are then managing it have that practical experience of their world?

Dr Jesse Norman MP: You are absolutely right that there is an eternity of difference between the character of a system or structure that is essentially bureaucratic and one that is essentially entrepreneurial. In a rule-of-law society, a certain amount of bureaucracy will be required; that is the nature of the beast. It is not irrelevant to note that, when you have powerful actors setting the rules, they tend to set the rules in their own interest. It is what I have heard referred to as the golden rule: he who has the gold makes the rules. You are asking about the nature of our industrial policy—in other words, what are we going to do to support SMEs and so on? It would be entirely inappropriate for me to give a running commentary on something that is about to appear from the Government, but your question about how we inject more dynamism, more openness and more energy into the economy is central to industrial strategy. I would just counsel—I do not need to say this to the House of Lords, given the expertise available—that a mistake that people sometimes make is to believe in a version of what used to be referred to in economics as the lump of labour fallacy, where there is a certain amount of labour and it just divides up into the number of jobs. It is not true in labour theory and it is not true in trade, either. Trade will out; it will happen. It is just a matter of trying to create structures that recognise the emergence of the new multipolar world with a freer, more wheeler-dealer type culture, enabled by changes in technology. That is something that we have to think hard about as a Government.

Rt Hon Matt Hancock MP: I think there is an opportunity here. I am a man after your own heart. I thought what Jesse said was very eloquent. There is an argument that trade happens between companies and entrepreneurs, and increasingly between small businesses, and we have to recognise that. But we have the opportunity to set trade deals—not only the future one with the EU but also all the way round the world—that recognise that and make it easy. I have just come from an event about getting businesses to do more digitally, where eBay described that the normal experience of the 200,000 businesses in the UK selling over eBay is that they end up exporting. The countries they mentioned starting with did not include any in the EU. They start with America, China and Brazil and people end up going into exporting because they fulfil an order that comes in on their website that happens to have an address somewhere else in the world. Having trade deals that free up that kind of entrepreneurial activity is a real opportunity. I know the Department for International Trade is not here but I am sure you will call witnesses from it. It told me that so far, it has had discussions with 55 different countries. Of course, we cannot have a formal trade deal until we leave the EU but there are those sorts of informal discussions. We have seen some of the enthusiasm from other countries. I think there is a real opportunity here.

Lord Ahmad of Wimbledon: I will add to this in practical terms on the scope of business. I can certainly confirm that across government we have been engaging directly with businesses in different sectors to reflect their number one concerns and what they see as priorities and opportunities in the discussions and negotiations we will have as we leave the EU. If you look at the reaction to the Prime Minister's speech delivered yesterday, organisations such as the Federation of Small Businesses generally welcome the fact that the tone and detail thus far given reflect a post-Brexit Britain that is pro-business. That underlines the sense of the direction of travel that we are in.

Lord Aberdare: I would like a bit more clarity on your view of the sequencing of all this. It is very encouraging to know that your expectation is that we can do the deal about how we leave the EU within the two-year timeframe. Does that also include the deal on what our new relationship with the EU is? The slight implication was that it does. What about other FTAs with countries outside the EU? At what point can we start getting into those in a serious way? My question is about the sequencing of this whole process within what is a fairly tight window of the two-year deadline.

Dr Jesse Norman MP: I understand the concern you raise but commenting on the Government's procedure for exiting the EU is slightly different from discussing the impact on trade. I do not think it would be appropriate for me to comment on that. There is clearly a series of issues that must be addressed. The evidence I have seen so far from within government in my miniscule experience has been that of a rather stately but energetic process of forming a view and coming to a consensus across a lot of different ministries with a lot of different constituencies and interests. That is why I am not particularly comfortable about commenting personally on a wider process.

Lord Aberdare: I was pushing my luck a bit.

The Chairman: It is of course true that Mr Hancock said something different to the impression that not only this Committee but also most of the House of Lords had hitherto been given, that while it was pretty easy to deal with the divorce proceedings, as it were, within the two-year or realistically 15-month or 17-month period, the negotiations on the trade side will take considerably longer. You are working on the assumption that actually we can deal with that.

Rt Hon Matt Hancock MP: That was not quite what I said. If you look at the record, you asked if it could be done. I also explained why it is different from doing a deal with somewhere where the existing rules are separate.

The Chairman: We take that point.

Lord Green of Hurstpierpoint: I did not ask whether it could be done; I asked what the Government's realistic expectation was.

The Chairman: Okay, can we now move on to individual sectors, starting with business services?

Q69 **Baroness Noakes:** With business services, in particular we are drawing from witnesses in the professional services sectors for accountants and lawyers. For the record I should declare that I was a chartered accountant, although it is a good long time since I had a financial interest in the business of chartered accountancy. One thing we heard unanimously from those sources was whether professional qualifications gained in the UK would benefit under mutual recognition once we are outside the Single Market—that is, the formal recognition of UK people in the rest of the EU and vice versa. That is critical to the business models of many of those running professional services organisations. If we are not to be in the Single Market, which is now clear, that question obviously comes into very sharp relief. I would be grateful for your views.

Dr Jesse Norman MP: It is a perfectly proper and important question and is one we discussed when I was co-chair of the Professional and Business Services Council. It is worth just pointing out that mutual recognition is governed by, as it were, a Directive used by relatively low numbers of UK professionals. However, there is a wider question as to what will be the regime. The answer is that it is not absolutely clear at the moment. We can say that there is likely to be an increasing move towards more mode 3 activity, by which firms essentially establish local presence, incorporate locally or set up local production—whatever the form might be. There will be an increasing incentive for them to use people, whether UK nationals or not, who are appropriately qualified locally as well as internationally qualified through such recognition. It is hard to imagine that we would not be able to put in place some set of working arrangements, given the existing legal frameworks being brought into UK law via the repeal Bill and the wider interests of both sides in being able to use UK professionals. However, this is a concern because the markets, even with the arrangements for professional qualifications at present, are hardly free from non-tariff barriers. Therefore, there is every possibility that other states might use those to try to escalate barriers against UK nationals. That is a correctly identified threat.

Baroness Noakes: But the repeal Bill will not have any bearing on this. Although that might require us to recognise others it does not mean that our professionals will be recognised in the EU.

Dr Jesse Norman MP: No, that is right, but the point is that it brings into our law a framework of recognition which maintains a portion of the, as it were, bi-laterality or exchange involved. Therefore, it raises the bar on states that wish to demur from those arrangements and discriminate against British nationals.

Baroness Noakes: I think you will find that the professional bodies themselves have great concerns about how that will work in practice, because of the difficulty in making any significant progress on mutual recognition over a long period of time. It has taken a long while to get to even where we are.

Dr Jesse Norman MP: I will not find that, Baroness Noakes, because I was co-chair of the council which[4]submitted the evidence to you, and a member of that council appeared in front of you. I merely suggest reasons why the situation might be overcome with a degree of good will and intelligent preparation on both sides.

Q70 **Baroness Noakes:** Okay. If we then look at mode 3, that brings the question of rights of establishment or market access, and whether it will be as easy as currently for firms to set up in other EU states, or vice versa, and carry on their business through local offices, subsidiaries or other firms. If we do not have the arrangements set out in the Single Market, what work have the Government done on how that could be replicated through other means? I do not think that the WTO particularly helps here; nor indeed do most FTAs.

Dr Jesse Norman MP: It is absolutely a live issue, and we have officials working on this at the moment. I do not think I can do more than echo the concern that you have described, Baroness Noakes. There is a working assumption that it will be possible, at a minimum, to have, if not formal rights of establishment, mechanisms by which companies can continue to trade. But this is absolutely the centre of what is being done at the moment.

The Chairman: The next sector we are going to look at is aviation. Lord

[4] The witness wished to delete "which" and replace it with: "whose business members".

Ahmad has already set out quite a bit on the background to aviation and why it would be in the interests of the Europeans to do us a deal on that. But we have received evidence from easyJet, for example, that it intends to establish an airline operator certificate in another EU country. In a letter, Lord Ahmad, you explain that one of the criteria for having one of these licences is that airlines have to be majority-owned and controlled by a Member State or nationals of a Member State. Clearly, when the UK is outside of that, we would not, on the face of it, qualify. How will this affect easyJet's intention, or indeed that of any other airline currently based in the UK?

Lord Ahmad of Wimbledon: You are quite right about the current terms of the relevant EU regulations. For example here in the UK, the CAA would issue such an operating certificate, and other organisations in respective EU countries do much the same. In a post-Brexit world, whether it is British or other airlines, that is going to be very much a matter for them to determine in terms of their operating certificates for other countries. You mentioned easyJet specifically. Of course, it is a publicly listed firm, and it would be inappropriate for me to suggest to a company what its share ownership should be, but I am sure every airline will determine how it wishes to operate under the rules of any particular market it wishes to access.

But I emphasise once again that the underlying point in all of this when it comes to aviation and aviation agreements is that the UK is in a position of strength. There is a further point linked to that. We have been talking about free trade agreements, and I am sure the Committee is aware that air services agreements are not subject to WTO rules, which provides a degree more flexibility. On that premise, again, whether you are an EU-based airline—whether your operations certificate is in Spain or France—currently accessing the UK market, or a British or British majority-owned airline operating in the EU internal aviation market, there is a sense that continuing, uninterrupted access is in the best interests of both sides. I cannot go into the detail of what deal will emerge at this time—which I am sure you respect and appreciate—but the starting basis, certainly when it comes to the aviation sector, as I have said before, is one of great strength.

The other area I will just highlight is air service agreements. We have a total of about 155 air service agreements with other parts of the world in place in the United Kingdom. Of those, 11 are stand-alone agreements, bilateral with other parts of the world. That includes the likes of Brazil, Russia, India and China—the BRICs, basically, to quote a former government colleague. We discussed earlier some of the practical steps the Government are taking. While I have been in post as Aviation Minister, I have signed a MoU with the Chinese which has doubled the passenger services between the respective countries and lifted the restrictions on freight. I am hoping to be in India very shortly, where I am hoping to sign a MoU about widening the access we have in terms of air services between our respective countries.

On the EU specifically, I have already addressed the issue of ownership, but it is important to recognise this is of mutual benefit. It is of equal if not greater benefit to European operators to have access to the UK market.

Q71 **The Chairman:** We recognise that aviation is an area where it is not that difficult to see how you would have a bespoke, separate agreement, as compared with some of the other sectors. Nevertheless, it is not only the EU, it is the EU's existing agreements with other countries, in particular with the United States, that we would have to sort out in that process.

Lord Ahmad of Wimbledon: You are quite right. There are about 44 agreements under the various guises of the EU relationship, but there are seven which are under enhanced status, including air service agreements with, as you are quite right to point out, the United States and indeed Canada. I can assure you—I alluded to this earlier—that I have had representations from and met, at their request, American Airlines, which have made quite clear the importance of having continued and unhindered access to the UK as part of whatever future deal is struck. That adds greater strength, coming back to my key point, to the UK's position in terms of our discussions with our European colleagues. It is not something which is lost: they recognise the importance of the US market and its access into the UK as a vital part of accessing the rest of Europe.

Baroness Randerson: I want to look at this in a rather more nuanced way, rather than seeing the aviation industry simply as a producer of pounds for our economy. The aviation industry provides a very valuable service for the people of this country, which is important to their quality of life. The average use of aviation relates largely to leisure services and business. I accept that the business demand for access to Europe is likely to fall as a result of a change in the way we view the EU, no longer being a member, but people will to a very large extent still want to travel within Europe. That is where firms such as easyJet make the bulk of their flights. One of the very valuable things that they have, which has been alluded to already, is the right to domestic flights. Do you accept, Lord Ahmad, that the new trading model could not suit the aviation industry in Britain as we know it and that therefore companies might seek to establish an HQ within the rest of the EU and to leave Britain and therefore weaken our strength?

I might as well put two questions in one. Do you also accept that because free trade agreements are usually separate from aviation agreements, and because we are a member, as I understand it, of the open skies agreement as a member of the EU, we have to look at aviation separately from free trade agreements? Indeed, it has to predate and precede free trade agreements, otherwise we will have a trade agreement without a way of delivering a lot of it.

Lord Ahmad of Wimbledon: First, you made a base assumption about whether business demand will fall off. That is based on a major assumption about the future trading relationship between us and the

European Union, and I cannot agree with your suggested premise. In terms of the other two areas, I do not accept either particular scenario, for two reasons. One is that I think the strength beyond aviation in terms of business and the UK as a place to come and do business—I am sure Jesse will want to comment on this specifically—is reflected in the practical things we have seen since the referendum decision, with a raft of companies making calls not on disinvesting from the United Kingdom but on investing in the United Kingdom.

Regarding some of the arguments that I hear about the fears being made apparent in certain quarters about our leaving the European Union, I remember my time in the City of London; I was working for a financial institution and was much involved in how those institutions saw the euro and its advent. Many suggested then that the UK's decision not to join the single currency would lead to the kind of isolation, and perhaps fear, that we hear about from certain quarters in our discussions now. So my own practical experience leads me to believe quite the opposite: the kind of business environment which we create here will determine the kind of decisions that businesses make on their medium to long-term investment into the UK.

I agree with you on one basis: the importance of having an early agreement on air services as part of the overall discussions and negotiations we have with the EU. I am not prejudging the negotiation's tactics or techniques but I am sure that will form part and parcel of what is factored into the minds of our colleagues in Europe, who recognise the importance of the UK aviation sector.

The background and premise underlying the UK's presentation to the world is that we are not just saying that we are open for business; we truly are open for business. They are not just words. Let us look at the kind of environment we can create. Leaving the European Union, whether in terms of regulation and the small business sector, which Lord Mawson talked about, or other opportunities we could talk about that exist in wider corporate governance—the kind of environment where companies wish to operate—is a huge opportunity for us. Certainly, the evidence thus far in many respects is that that is recognised internationally. Our strength in the aviation sector lends strength to that argument.

The Chairman: You have strayed a bit from aviation proper but thanks very much for that. Would you like to say anything about the other modes of transport, in particular road and rail and their interrelationship with whatever form of customs arrangement we might have in future?

Lord Ahmad of Wimbledon: Only this, and I am conscious of time as well. I think all three of us have alluded to recognising that there is EU regulation and legislation which currently apply to different modes of transport and all sectors. Matt alluded to taking through particular legislation that reverts to EU legislation. I have had the experience as the Transport Minister, not just the Aviation Minister, of taking the Bus Services Bill through the House of Lords. One issue that arose at that time was that of disability driver training. The baseline protection for that is an EU regulation, which comes into effect in 2018. As I assured the House at that time, and as I emphasise again today, we recognise that there are strengths. That is why the Prime Minister has made it quite clear that we will transpose it into UK law through the great repeal Bill. The importance of ensuring that continuity in the protection of workers and different transport modes continues. I also recognise that there is an opportunity, as we look at these different modes of transport, to look at where we can strengthen such provisions as we leave the European Union.

The Chairman: Thanks very much. Can we now move onto ICT and telecoms?

Q72 **Lord Lansley:** Matt, you talked earlier about the data protection regulations as a moving part while we exit the EU. In the same way, the whole digital market strategy is a sort of moving part. Obviously, from the United Kingdom's point of view, if the digital Single Market in Europe is created in an open fashion—one which is really open to international markets—then we will in effect create something which will then be a real opportunity for us in the longer term. But some of the evidence that we received suggested that there were concerns about whether it would be able to be as open as we might wish, and that there were some protectionist elements. Could you tell us a bit from your point of view about the strategy for trying to arrive at the right deal on digital?

Rt Hon Matt Hancock MP: Yes, of course. There are a number of moving parts. GDPR is in a sense settled at the European level but is still to be brought in here. The European electronic communications code, which is more on the hardware and infrastructure side, is currently under discussion in Brussels. There was also a paper last week on the e-privacy Directive and whether that needs updating.

One good thing I can report is that my sense is that since the referendum, our impact on current EU debates is as significant as it ever was—read into that what you will. Certainly in the debates on the digital Single Market, and in arguing for free flow of data within the EU and with countries that have adequate recognition arrangements with the EU, we have been able to make progress. Indeed, last month we managed to win the argument on mobile phone roaming, which will now come in within the EU on 15 June. Liberalisation is taking place in a whole series of areas.

We are using the fact that we are members until we leave to contribute to and win those arguments, as we would have done if the referendum had gone the other way—that is, in favour of openness, which is typically the British stance, certainly in economic debates in Brussels. Of course, that helps to win minds over to the fact that we are not only current members but will not be members in future. It plays a part in the strategy, of course, but ultimately it does not change the British position that much, because we are typically in favour of openness anyway.

Lord Lansley: Perhaps it is too early to say but do you have a sense of what approach we might take, given that some of these issues will not be resolved within the next two years or so? The digital market is one area where the likelihood is that there will be further regulatory changes in years to come. How might we go about trying to influence those in the future?

Rt Hon Matt Hancock MP: It is far too early to say, not least because a lot of these things have not been settled at European level. It depends how they are settled there. There is then a wider question, which is unanswerable: once we are in control of our own laws, how would we react to any given new European law? We would be free to choose either to move towards it, align with another part of the world or come up with our own solution. That is the thing about being a sovereign nation state: you can make those sorts of decisions.

Lord Lansley: You mentioned roaming. The discussions we have had with companies and organisations touched partly on the question of the roaming charges and the roaming cap, with the suggestion that it is not obvious whether mobile network operators from Britain will necessarily be able to connect with that. It depends partly upon their industrial structure and the extent to which they can access the volume purchasing of wholesale telecoms in other European countries. If they cannot, as with some Swiss mobile network operators, you would end up with significantly higher roaming charges—as in Switzerland—and no access to the roaming cap. They were worried that we would not necessarily have access to the roaming regime after Brexit.

Rt Hon Matt Hancock MP: For a start, we are a much bigger market than Switzerland, so we have a much better position in terms of size. We undoubtedly favour roaming and argued for it. This is something that will no doubt be part of our thinking as we go through the negotiation.

Lord Green of Hurstpierpoint: I have a quick supplementary to your previous answer to Lord Lansley's question. As we move to the post-EU world—as you said, we will then be sovereign, in control of our destiny and free to react or not, and to comply or not—can you see an advantage to us in some form of structured consultation or co-operation arrangements for the digital Single Market, given its importance to us both domestically and as an export market, including the EU as a major part of our export market? Can you see the value of a continuing close relationship as they form policy, such that Britain can influence the policy discussion? That is, it is not just reactive and about a decision whether to comply or refuse to comply; it is an influential relationship.

Rt Hon Matt Hancock MP: What I would say about that is that we have those discussions with lots of countries around the world. It is too early to go into the details of what that structure would look like, but we have discussions with American regulators all the time about potential future regulations, because there are areas where, by dint of global trade, it is better that some regulations are harmonised, where that helps and where there is no downside to doing so. But it is too early to get into the details of how that might be structured.

Lord Mawson: Looking at how to lead the world on innovation, my experience of innovation, having done a bit of it in my life, is that it is all fundamentally about people and relationships and about creating the conditions in which people from very different backgrounds can begin to operate and connect together, be they in the digital world, doctors or artists—a whole range of stuff. It is about those conditions. One of the challenges we all face is the silos of government. We face that in this country, across Europe et cetera. These systems are not fit for purpose for this world of innovation that is now starting to come upon us. I always say that if you create music of the quality of the Beatles, they will buy it all over the world whatever the systems are. If we are to create that kind of environment, what in practice are we going to do? There has been lots of talk—I have lived through seven Governments talking about this—but what are we going to do in practice to enable the loosening of those silos and to make them more porous, so that there is cross-fertilisation, and relationships can be built between a whole range of different people, so we become the best in the world at innovation? If we do not do that, I suggest we will not be the best in the world.

Dr Jesse Norman MP: As earlier, Lord Mawson, you have put your finger on a very central part of the challenge. I do not want to pre-empt announcements that are forthcoming in the next few weeks, but part of the core point of having an industrial strategy is to force a Government to articulate—to a first approximation in the form of a Green Paper—how they see the way in which the different parts of the economy do and should work together, and the role that the state can potentially play in helping to create these cross-pollinations, cross-fertilisations and interlinkages that you have described.

So the question is extremely apropos. The point also—this goes back to the earlier point that you made—is that in a digitally enabled world, the capacity of bureaucrats to withstand for any sustained period of time activities that have a substantial head of steam behind them and, increasingly, minority interests with powerful electronically enabled voices becomes extremely small. So the question is less about formal structures—although they remain important in the short to medium term—and more about how we build intellectual value-added across the entire economy, and not just in London, Edinburgh or Manchester. As the House may know, I am an ultramontane on the importance of having higher education in cold, or cool, spots in this country—notably Herefordshire, where I am Member of Parliament—and I await with some expectation announcements from the Government in this regard. The reason for that is that higher education, possibly more than any other single set of institutions, has that enabling effect on place. If we are going to take place seriously, as we already are in our industrial strategy and in the way in which my department is set up, with Ministers having responsibilities specifically for LEPs and therefore for places around the country, then that kind of regionally sponsored allocation and enablement of places is going to be incredibly important.

Rt Hon Matt Hancock MP: I was having a wry smile, because in my previous role I spent a lot of time trying to ensure that government departments worked a bit more closely together and that the silo element of this was broken down. I was hoping that we could demonstrate that, but now I am going to demonstrate exactly the opposite, by arguing that it is in many cases cultural institutions that are the greatest at developing a place.

Dr Jesse Norman MP: We are saying the same thing.

Rt Hon Matt Hancock MP: We are saying the same thing.

Dr Jesse Norman MP: Annoyingly, we really are, because it is the cultural effect of these institutions as well as the educational effect that makes a difference.

The Chairman: I am glad we got that clear. I want to move on to broadcasting and the creative industries more generally.

Q73 **Lord Aberdare:** The UK is currently the hub for broadcasting in Europe, and a number of the broadcasting organisations that have given evidence have expressed considerable concern about whether they will be able to retain that position after we leave the Single Market, or whether, under the rules of the AVMS Directive[5], they may need to relocate part of their organisations to another Member State. Do you think that we can remain the main hub for Europe after we leave, and if there are issues about that, whether there are alternative ways of achieving it, such as the Council of Europe's Transfrontier Television Convention?

Rt Hon Matt Hancock MP: The Council of Europe Convention has been used recently, in part, but it is a 1993 Convention, and in this space that is a long time ago, given what happens to technology. It only covers satellite technology, so it is very partial. However, we want to have as open as possible a deal with the rest of Europe. There are big advantages to the rest of Europe in having as open a deal as possible in this space with us, so I am confident that we can remain this amazing, globally leading country for content production that we have developed into over the last 15 or 20 years. As you say, it has been absolutely terrific, but you have to remember that our great success in Britain over that period in becoming an extraordinary place for content production is driven by our cultural values and investment in cultural institutions, by our system of education, by the hubs that we have built up of all the different parts of the industry, and by interacting globally. Of course Europe is an important market, but it is only one. For instance, our film industry is much more closely integrated with the United States, and is increasingly trading with China. This is an industry in which we are truly world-leading. It is not one where we have to focus only on the EU relationship.

Dr Jesse Norman MP: May I come in behind that on one thing? Speaking as a former chair of the Commons Culture, Media and Sport

[5] Audiovisual Media Services Directive

Select Committee, I think that this goes directly to the issue of where economic value is derived from. The idea that it is just about money or rules is absolutely wrong. Access to finance and the rule of law are important, but culture is overwhelmingly important. It is very easy for people to say that if Brexit goes wrong, these people can be relocated. I do not think they have any idea how difficult it is even to take the culture of a factory floor, which is highly automated, with a set of existing investments and union relationships, and transport that to another country. Try to do that in the broadcasting world, where people interact in the most intimate way and choose to cluster together—it is extraordinarily difficult. You can look at the changes that have been made recently.

To pick on two quickly, one is the way in which the BBC has moved a large chunk of its facilities to Salford. That has been a marvellous piece of regional entrepreneurship, a shot in the arm. I do not want to restrict this just to the BBC because the depth goes all the way down the industry, but the other development is the change that it is making to the BBC studios to open up the next generation of availability of trade in broadcast and broadcast content.

The Chairman: I think we all recognise that there are other markets, but the European market is quite important. There is a particular question that Baroness Donaghy wishes to raise.

Q74 **Baroness Donaghy:** This question still relates to the creative industries but it is about the definition of "European works" and how our leaving the EU will affect the British in terms of quota.

Rt Hon Matt Hancock MP: I can be cheerful on that, which is that the definition of "Europe" in defining whether something is a European work is not the EU. As the Prime Minister likes to say, we are leaving the EU but we are not leaving Europe. In this case, that is not only physically true and not only for tonal purposes but is actually technically true. There is no intention to change that.

The Chairman: In all these areas, your views are reassuring but they are at odds with the fears expressed to us by some in the industry, who see that in this area it is relatively easy to shift your location if you have to. If you shift part of it then other parts of it in which the Brits do well, such as the advertising side, would also shift. You will need to be reassuring your creative industries of various sorts in this area because they have certainly been expressing to us considerable concern, given that their areas are probably easier to move than whole factories.

Rt Hon Matt Hancock MP: When I am not being held to account by your House, I spend my time doing little else.

The Chairman: I am glad to hear it.

Rt Hon Matt Hancock MP: I have a serious point to make on that as well. On the specifics of the creative industries, the response that Jesse gave on the importance of the industrial strategy and helping there is true as well. Clearly the creative industries are a critical part of the broader industrial strategy too.

Lord Mawson: I have a point about the BBC. It is not just about cultural clusters, it is about what the messaging is. How can we enable the BBC to be more sympathetic to entrepreneurs in the practical detail? When I listen to a lot of it, it feels like my 1970s university lectures coming out at me. I suspect that this might be because, while they might be in Salford, how connected are they to those very poor communities around their site there and to what is happening in Manchester at the moment, where I am, with lots of entrepreneurs? There is a connection point here, because if we are to tell a story as a country about entrepreneurship and innovation, our key communicators themselves need to understand what that is about and what it is like for families to be entrepreneurs, the effort for their children and so on. There is a communication issue about what story we are telling. If our communicators are not connected with it, we have a problem.

Rt Hon Matt Hancock MP: As someone who started life in a small business and has worked in a small business, all of whose siblings have started their own businesses, and who has been the Minister for Small Business, I think you are tempting me enormously to tell the BBC what it should be broadcasting and in what tone. Having just gone through a year-long process of charter renewal, I hope you do not mind if I resist the temptation and leave that to the BBC. Maybe you should have the new chairman, David Clementi, here, and then he would be able to answer the same question.

The Chairman: While Lord Mawson raises a general point about important cultural issues, this is not a hearing on the future of the BBC.

Rt Hon Matt Hancock MP: Okay. Of course I take the broader point.

Dr Jesse Norman MP: May I add one thing as another son of an entrepreneur? Does the Committee not detect an enormous change in the way that Britain thinks about business and entrepreneurship over the last 20 years? I think there has been an extraordinary change. I see the same change occurring now at the earlier stages in thinking about engineering. The voices of the university lecturers in the old days of Lord Mawson’s description are still occasionally heard in some places, but there was an overwhelmingly wider voice recognising the future, the possibilities and all the things that go with those.

Lord Mawson: I think that is true, and I think we are moving in the right direction, but there are some blockages. “The Apprentice” is good fun but actually there is something rather more serious going on among thousands of local entrepreneurs, who face massive struggles against massive systems, but I do not hear those stories being told. We should celebrate some of these people because what some of them are doing is extraordinary. In my experience we get far too much ideology and not enough focus on real practice and real learning in real communities. For example, in the north of England there are some very interesting things going on.

The Chairman: Thank you. Before we stray into these wider areas, which we can be positive about, can I bring us back to some of the institutional issues? Baroness Randerson has a question here.

Q75 **Baroness Randerson:** This is a general question. The Single Market, as well as providing us with a large market of 500 million people, also has a very useful and accepted institutional enforcement mechanism—we have had evidence based on the statistics of cases taken and so on—to enforce against unfair practices. When we had that evidence, it was contrasted with WTO processes, which are really only accessible to major corporations, take years and are very rare. What consideration have the Government given to ensuring that, in all the new free trade agreements and the new business set-ups being established, our small businesses are given a similar simple and easily accessible system when unfair trade practices occur?

Dr Jesse Norman MP: Thank you for the question. An awful lot depends on where we end up, but the question of whether there can be other forms of dispute resolution and how those might work within specific trade models is a very pertinent one. I am not in a position to give the Committee any detail on this because we are at the very early stages and, as will have been seen, this too may be subject to further processes of negotiation and discussion. However, the issue is very much front and centre, for precisely the reasons that you describe, and because of a wider understanding, which I think goes across government and bears on the conversation we have just had, that one of the reasons for the anger at our status in the EU was the feeling that big companies did better out of it legally and small companies did not do very well. They did not necessarily have the capacity to cover all the costs associated with complying with the regulations. The same is true of dispute resolution. One does not want a dispute resolution mechanism that is only for, as it were, the largest economical social entities. I am afraid that I cannot give more detail on that—we do not have more detail—but it is very much a work in progress.

Baroness Randerson: You talk about perception, but the evidence we had was that the statistics show that the EU complaints processes, if I can put it that way, were actually very easily accessible for small companies, and many hundreds of them took advantage of that.

Dr Jesse Norman MP: In which case it should be a negotiating priority to have a mirroring arrangement as part of the discussion.

Q76 **The Chairman:** I think the point is that you can enforce those through British courts but you can do other dispute resolutions through free trade agreements, and indeed the WTO, only through state-to-state dispute resolution, which is not really accessible to small and medium-sized firms to any great extent.

Perhaps I can ask you a more general question about free trade agreements, both with the EU and third parties, and those that exist already between the EU and third parties or between other countries and third parties. Is any work being done on looking at how existing trade agreements cover the services area? Are there any templates, or concerns about how we would move into this area as far as the services your departments cover are concerned? Is there any best practice that we can learn, or any good examples we would wish to emulate in this area? Are your departments working on that?

Dr Jesse Norman MP: As the Committee will be aware, there are different resolution mechanisms associated with different regimes. Obviously there is an EFTA court; in the case of CETA, there is a consultation and voluntary mediation process; in the case of the WTO there is a dispute resolution body. In the case of Switzerland there is no voluntary institutional framework, so the task for the Government is going to be to abstract from that the best possible regime. This is just personal speculation on my part, but what I am trying to understand myself is why it should not be possible—it may not be as a matter of general law—for specific contracting parties simply to choose a jurisdiction by which a contract is going to be governed. That is something I cannot understand. In America, you would do that very simply: you would say you are going to contract on something and the law will be that of Delaware, or whatever it might be. It is not clear to me why many of these issues cannot be handled in that kind of way, and that is the kind of question I am putting to officials at the moment for some kind of resolution.

The Chairman: We are moving to wind up. Do any of my colleagues have any final questions? I will just give you the opportunity to say anything you feel you have not got on the record for us and to perhaps give us an indication of how you judge the capacity of your departments and Whitehall in general to deal with these extraordinarily complex issues, or any other final remarks. You have been very patient with us. Thank you very much for your time.

Lord Ahmad of Wimbledon: Perhaps I can begin with that. One thing is to give the Committee some reassurance. Lord Mawson made a comment about silos, but the approach of the Government is anything but that. The Department for Exiting the European Union was established under David Davis, and its engagement across government has been quite exemplary. We have been holding joint round tables. Certainly, I can speak specifically from a DfT[6] perspective with respective departments, and that is reflected in the ability of industry and companies involved with respective industries to give direct feedback, not just to the Ministers of the Department for Transport, but also to the Ministers within the Department for Exiting the European Union. In terms of preparedness, again, in the DfT, and we are not unique in this, we have some of the most capable people, in terms of their knowledge both of the European Union and its workings and of the respective modes within the transport sector, engaging them directly on the issues and challenges and, more

[6] Department for Transport

importantly, the opportunities which will arise from exiting the European Union. Work is not just starting but is very much under way on all those different streams of work.

Rt Hon Matt Hancock MP: I would echo all of that. There is a team in the DCMS that works on these issues, which includes some of our very best civil servants. But actually, every part of the department is of course working on the consequences for the sectors or the policies that they are responsible for. The cross-government cohesiveness of the work has been excellent.

Dr Jesse Norman MP: My department is in a slightly different, unusual position, because we are the product of a deliberate desire to break down silos and to bring together the Department for Business, Innovation and Skills and the Department of Energy and Climate Change, precisely in order to be able to give government a conspectus of the whole—not just a revenue perspective but a cost perspective, particularly on energy cost and climate change. So we try to run those strands across all of our activities. The other thing of course is that we are in the process of developing and, in due course, agreeing across government and with the British public—incorporating their genius—an industrial strategy. Brexit shades all of that activity. I hope, as I say, that this is not naive, being on six months' experience, but I must say that I have been consistently impressed by the quality of official support that we have received in this area. There is no doubt we are going to need it because the road ahead is going to be an interesting one.

Lord Mawson: I have just one point, having lived through a few Governments. I think the Blair Administration took this quite a long way, but the one thing they did not do was ensure, in practice, that civil servants got promoted and rewarded for this kind of behaviour. I suggest that if we are really going to break through on this, we have to put some mechanism in the system so that the people who are running it are rewarded and promoted on the basis that they join the dots and enable this to happen. If that does not happen, the resistance to this will still be very great.

The Chairman: I think that is a point for noting and taking to the Cabinet Office, among others. Thank you very much for your time and the light you have shed on your current preparedness for this. As I said earlier, this is partly due to the passage of time and the Prime Minister's speech, but it is in contrast to the high degree of anxiety which the various sectors reflected to us at earlier stages. We will go back to them before we complete our report. Clearly, they may wish to come back to us in the light of developments before we finalise it. This has been very helpful to us. You have a lot of work on your hands, so the very best of luck with that. Our intention is to produce a report in the middle of March, so you will not have to wait that long, but we will have to do some double-checking before we finalise it in the light of the evidence you have given today. Meanwhile, thank you very much for your time and your patience with us all.