

Treasury Committee

Oral evidence: [UK's Future Economic Relationship with the European Union](#), HC 483

Tuesday 24 January 2017

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Members present: Mr Andrew Tyrie (Chair); Mr Steve Baker; Helen Goodman; Stephen Hammond; George Kerevan; Kit Malthouse; John Mann; Mr Jacob Rees-Mogg; Rachel Reeves; Wes Streeting.

Questions 392-533

Witnesses

I: Tom Williams, Chief Operating Officer and President of Commercial Aircraft, Airbus; Richard Carter, Vice-President and Managing Director, BASF UK and Ireland; and Mike Hawes, Chief Executive, Society of Motor Manufacturers and Traders.

Examination of Witnesses

Tom Williams, Richard Carter and Mike Hawes.

Q392 **Chair:** Thank you very much for coming in to give evidence to us this morning. You represent three large and important industries. Mr Hawes, what do you think is the balance of power between the two negotiating parties in these forthcoming negotiations? I note that in her speech on 17 January, the Prime Minister said that a failure to reach a deal with the EU and a consequent reversion to WTO rules would “jeopardise investments in Britain by EU companies worth more than half a trillion pounds”. In other words, she is saying the EU has a lot to lose. Who really has more to lose? Are we a smaller negotiating partner?

Mike Hawes: Thank you, Mr Chairman. I represent the automotive sector and, as we see it, invariably both sides have something to lose and potentially something to gain out of negotiations.

Q393 **Chair:** It is both a lose-lose if we fail to get a deal and a win-win if there is a deal.

Mike Hawes: Exactly.



Q394 **Chair:** We are better off with a deal than no deal.

Mike Hawes: Absolutely. As an industry, we are totally integrated across Europe. We are one of the sectors that have really exploited the benefits of the single market, as much as another other. You would have to view Europe as perhaps a single factory floor with parts going across borders seamlessly and frictionlessly.

Q395 **Chair:** There are these long supply chains for cars, where cars' components come from many sources across the area of 500 million people.

Mike Hawes: Correct. Exactly. A widget made in one country becomes part of a component that is made in another, which goes to a third country to go into an engine, which goes to a fourth country to go into a vehicle. It is quite seamless. The industry has really benefitted from that free movement of goods. The reversion, which is the threat, to WTO, is if we assume there is no deal, is potentially the worst of all worlds for us as a sector, because it would put obstacles and impediments into that free flow of goods. It would potentially add additional cost and additional tariffs.

To get to the heart of your question about where the balance of power is, the implementation of tariffs invariably will put prices up. We are one member of the European Union and we are one location for automated manufacturing. We compete with other locations, both within and without Europe. The key issue for us is making sure the UK remains a competitive place to make and to sell cars. Implementation of tariffs would undoubtedly put up the price, and there would be a short- to medium-term drop in demand that has implications, but we will always buy cars. We need vehicles. The question is whether we will continue to make them here if we are disadvantaged in terms of competitiveness as a result of a reversion to WTO or a bad deal.

Q396 **Chair:** What is the answer?

Mike Hawes: We have these discussions with our counterparts across Europe. Undoubtedly the UK is, for German carmakers, the second biggest market in Europe outside of their own. They would want a good deal on that basis. However, what is more important to them, which has been clear in all the conversations I have had with them and other members, is the strength of Europe and, in the case of the German car manufacturers, the best interest of Germany as well. You cannot just look at an economic argument as being the key issue for how an individual sector will react to these discussions.

Q397 **Chair:** I have not really understood that. What is the non-economic argument?

Mike Hawes: It is commonly alleged that the country that has done perhaps best out of Europe over the last 20 years is Germany, and certainly the German car industry is incredibly competitive and



HOUSE OF COMMONS

productive. It has grown internationally, as indeed has our own. But what is clear is they do attach a lot of importance to the success of Europe and the European Union. A trade argument, an economic argument, is a compelling one, but it is not the only argument that they would be concerned about in discussions.

Q398 Chair: I am sorry to spend some time on this point that you have raised, but, just to clarify, are you saying that the argument that Germany would want to maintain a high level of political solidarity could lead German negotiators offering views to the Commission on the final outcome to be more flexible than they otherwise would be, were they to look at wholly economic arguments for a deal?

Mike Hawes: I cannot speak for how they would react to the Commission, but certainly they will be looking not just at the economic benefit. They will clearly look at the European market and the strength of Europe as a whole because that would obviously trump how big the UK market is. The European market is about 15 million to 16 million vehicles. We are about 2.7 million.

Chair: Tricky word that, "trump", these days. It pops into conversations quite a bit these days.

Mike Hawes: I apologise.

Q399 Chair: Mr Williams, could you have a go at answering the same question?

Tom Williams: As Mike has said, automotive is integrated, and for us in Airbus we are probably even more so. When we build a set of wings in Broughton, they go literally out the back of the factory into a Beluga, which is a flying truck, which flies them to Hamburg and Toulouse, and a few hours later they are being built into an aircraft. It is only the success of Airbus as a highly integrated company that gives us the success that we have, the impact that we have on employment, the jobs we create and the money we spend in the UK.

We are clearly concerned about anything that disturbs that model, because it is a very seamless, just-in-time process. It also relies on us moving talent around the country. We have a lot of Brits working in Europe, and a lot of French and Germans working here in the UK. For us, as an international company, that is what we need to have: a fairly seamless process. Anything that disrupts that model will create inefficiency and could affect our long-term competitiveness.

Q400 Chair: What would be the effect of going on to WTO rules?

Tom Williams: The only concern I would have is if I look at the application of WTO rules in the aerospace sector, as a mechanism for resolving disputes, the track record is not great. Over the last 15 years, the so-called Large Aircraft Sector Understanding agreement has been going back and forward between the European Commission and the



HOUSE OF COMMONS

Americans. The only people that are succeeding and doing well from that are the lawyers. There is no resolution. Even when the case is found against Boeing, as it had been recently, there is no real implementation. I would be sceptical on the WTO as an effective mechanism, certainly for our industry, to resolve disputes.

Q401 Chair: You said that is the only concern you have, but it is an elephant in the room. It is a crucial concern. You are basically saying that WTO rules would be a disaster.

Tom Williams: I am saying the WTO track record for our industry in resolving disputes has not been successful—by demonstration.

Q402 Chair: It is not true that no deal is better than a bad deal. In a sense, almost any deal we can get is going to be better than recourse to WTO rules on the description you have just given.

Tom Williams: I would question, certainly for our industry, whether the WTO is a sensible fall-back position. I personally do not believe it is.

Q403 Chair: We are asking you for your considered view on it; it is why you are here today. What is your answer to the allegation that the aerospace industry has benefitted over the years from a number of government subsidies and other means of avoiding full-blown competitiveness? We might come on to this in more detail later, but perhaps you could make a preliminary response to that allegation now.

Tom Williams: I am always more than slightly irritated when people tell me about subsidies. In the UK we have repayable launch investment—and it is repayable launch investment. If you look at some of the main cases, like on the single-aisle programme, that was repayable launch investment, given by the Margaret Thatcher Government at that time, of something around £250 million, which we repaid more than twice. It has created or helped to create almost 100,000 jobs in the UK. That was a stunning investment for UK Government, both in terms of financial return and job creation. It is not a subsidy. There is no subsidy element to it. It was fully repaid, with interest and a very good return for the UK Government.

Q404 Chair: Mr Carter, what would be your answer to this set of questions about the balance of power in negotiations and the effect of a fall-back to WTO rules?

Richard Carter: First of all, I would like to say a few words about the structure of the chemical and pharmaceutical industry in the UK. We are a leading contributor in terms of value created in the UK. We have a positive trade surplus of £3 billion a year and, very importantly, 60% of the chemical exports from the UK go to the EU. In the other direction, about 75% of imports are from the EU. The chemical industry is very clearly dependent on complex supply chains, with products crossing borders. From the industry perspective, we are closely linked and very dependent on trade with the EU.



HOUSE OF COMMONS

From the company or BASF point of view, we have done various calculations and looked at the WTO situation, and any tariffs are a disruption to trade. In the case of BASF, we import important chemicals from the EU; we export to the EU. We import finished products into the EU. Reverting to WTO means that tariffs would be imposed on both sides, which would lead to an additional cost burden on both sides. Therefore, we calculate the WTO situation would on average lead to tariffs of 5%. The range of WTO tariffs on chemicals goes from 0% to 13% based on an average of 4% to 5%. That is the additional cost that we would incur.

Q405 Chair: What about the WTO rules point? Who is the winner and who is the loser? You gave me the figures of 60% and 75%, but in those in those negotiations who has really got the most to lose?

Richard Carter: Both sides have something to lose because both sides would have additional cost. It is very difficult to say who are the winners and losers, because tariffs disrupt trade and shift the competitive position. The competitive position of our operations in the UK would be impacted by the tariffs.

Q406 Chair: I have one point of clarification while we are on tariff rates, Mr Hawes. It is true that tariffs on cars are only 10%, which is the common external tariff, but they are over 20% for commercial vehicles, are they not?

Mike Hawes: The new tariff is higher. It is 10% for finished vehicles, and between 2.5% and 4.5% for components. The effect of that, looking ahead to the WTO, is if you were to apply a 10% tariff and then calculate that through in terms of what that would mean in both cost and price, that would create about £2.4 billion⁶ additional cost on the vehicles that are sold here. Of the cars that we sell here, just over 80% are imported. That cost would largely, though not entirely, be passed on to the consumer, because the market would have to sustain that. For exporters, the cost would be about £1.8 billion of UK exports, but it is much harder to pass on that cost to the consumer because, by definition, you will be a small market player.

For example, if Jaguar Land Rover make an XE and they export that to Germany and it is carrying a 10% tariff, that additional cost cannot be passed on into the German market because the German makers of the 3 Series, C-Class, E-Class or whatever would have a lower price point. Hence, the car would be uncompetitive. The tariff would have to be absorbed in the competitiveness of Jaguar Land Rover.

Q407 Chair: Is the effect of the exchange rate movement we have just seen comparable in many respects to those sorts of numbers?

Mike Hawes: The short answer is no. Yes, sterling has depreciated. I do not know what its long-term positioning is. You have to remember that, on average, a UK vehicle has only 41% local, UK-sourced content. The majority—just under 60%—comes from abroad. Two-thirds of that



HOUSE OF COMMONS

comes from the rest of the European Union. The input costs have gone up commensurately with that switch in sterling.

Q408 **Chair:** The exchange rate effect is much smaller than would be the tariff effect.

Mike Hawes: Yes.

Q409 **Chair:** Perhaps you would set that out for the Committee in writing with a numerical example after the meeting, when you are ready. Mr Carter, what is your answer to the same question about exchange rate fluctuations? You gave me the tariff figures. I think you said 5%, but the average tariff on chemicals is 4.5%, isn't it? It can be as high as 13%. Do many of these arguments also apply to chemicals?

Richard Carter: The answer to the question depends on the structure of imports and exports. BASF in the UK has 10 manufacturing plants. When we look at the balance, we have a ratio of 4:1 in terms of imports versus exports. The calculation very clearly shows the lower exchange rate impacts our exports, but our exports are only in a ratio of 1:4 versus imports. The calculations we have done based on reverting to WTO show that the additional tariff for BASF in the UK would be in the tens of millions of pounds. To be more precise, it is between £50 million and £60 million a year in terms of added cost to our operations.

Chair: Perhaps you could set that out for us in a numerical example in your own time.

Richard Carter: Certainly.

Q410 **Rachel Reeves:** Thank you very much to the three of you for coming this morning. I wanted to explore the length of time you think it will take to get a deal, given the complexity, and then look at the transitional arrangements. In your individual sectors, do you have any thoughts on how long it will take to get a deal?

Mike Hawes: I can only go on the experience that the EU has had with other trade agreements. CETA was seven years. Europe is still discussing with Japan the possibility of a free trade agreement. That has been going on for many years. South Korea took four or five years to come to fruition. Given the complexity of the industries and these agreements, you would take that as a rule of thumb. This will take a number of years.

Q411 **Rachel Reeves:** Will it take more than 18 or 24 months?

Mike Hawes: It depends on the nature of deal that you want. If you look at individual sectors, we would clearly have some specific needs and requirements that we would need from any trade deal to maintain our competitiveness, not just with Europe but beyond. These would be line-by-line issues.

Q412 **Rachel Reeves:** Mr Williams and Mr Carter, would you concur with Mr



HOUSE OF COMMONS

Hawes?

Tom Williams: Mike said it well. I would only add that, for our industry, it is a very long-cycle industry. When we are ordering components, we are often ordering 36 months ahead because of the nature of the manufacturing process. Anything that is inside that time cycle is concerning and disturbing in terms of our plans. For me, that would be the main concern in that situation. It depends on the complexity of the change, clearly. At the same time, of course, we would try to find a pragmatic solution, as we must do.

Here I am speaking about UK aerospace, not just Airbus in the UK: there are multilateral agreements that mean there should be tariff-free movement of aerospace components into other markets. There is some framework that already exists. But clearly, with a long-cycle industry, it is concerning if we do not have clarity in such a short timescale.

Q413 **Rachel Reeves:** I want to come on to the transitional arrangements in a moment. Mr Carter, have you got anything you want to add about how long you think it will take to get a deal?

Richard Carter: From the chemical industry point of view, the regulatory framework is very important. This is a very complicated element of the industry in which we work. I am specifically referring to REACH, which governs the chemical industry, but there are also other regulations governing the chemical industry. In total, I think there are 14 directives that impact on us. When we are talking about transitional arrangements, we need to be very specific in terms of what elements we are talking about. When we are talking about REACH, for example, REACH was introduced in 2007 and will be completed in 2018. It is extremely complicated, and that is the complexity that we have to deal with on the regulatory front.

Q414 **Rachel Reeves:** The Secretary of State for Exiting the European Union has suggested transitional arrangements of perhaps one or two years to enable you to adjust and move to a new relationship with the rest of the European Union. Mr Williams, you have spoken about the length of the time horizon for your purchasing etc. and, Mr Carter, you have spoken about the complexity of the regulatory framework. Again, do you think that one or two years is about right? Then I want to come on to look at what you want to get out of transitional arrangements and what they can provide to your industries. If you had a deal of some sort in 18 or 24 months, then you had one or two years' transition, would that give you the certainty that you would need in your industry?

Tom Williams: If you said to me today, "What is the nature of such a deal?" the concerns I would have relate to how, as I mentioned earlier, we take wings out of the end of the factory and we fly them immediately to the other plants and use them. I would want that to stay in place so that I do not have to go through a complex customs clearing arrangement. Customs can come in and inspect us at any time—and



HOUSE OF COMMONS

they do. It is a very clear and transparent process, with snap audits whenever they want.

At the same time, if I have a problem in one of the final assembly lines in Germany or France today, I could call the plant in Chester, in Broughton, and get 20 mechanics sent to Toulouse first thing tomorrow morning, with their toolboxes, to fix the problem. I do not have to wait 90 days for visas or special immigration clearance.

Q415 Rachel Reeves: But that is about what you want the final deal to look like.

Tom Williams: If you asked me about the real concerns, they would be in that kind of area, and they would also be in the movement of talent. We have 600 French, Germans and Spanish working in the UK and 1,800 Brits in Europe. They are not immigrants; they are people that are there as part of their career development. It is about managing talent.

Q416 Rachel Reeves: For you, it is visas, customs and free movement of talent.

Tom Williams: Yes.

Q417 Rachel Reeves: That gives us an idea of where you want to end up, but I am asking what you need to see from transitional arrangements. Also, if you have a 36-month horizon for putting an order in to taking that order, I would like to know whether a two-year negotiation followed by a two-year transition would enable you to make a 36-month-in-advance decision, or would that mean that you would postpone investment until you knew?

Tom Williams: At the moment, we are continuing to invest, because we take the view that Airbus in the UK is an integral part of the family of Airbus. We are still highly committed to the UK; however, clearly, if we see a macroeconomic climate or a blockage to the key operational points I have just talked about and that starts to change, it would not change our decision day-by-day but it could in the longer term. As we come towards the end of this decade when there are perhaps bigger decisions about longer term product policy and mixed investments, it could become a deciding factor. I do not want to see a loss of any of the very good capability we have today.

Q418 Rachel Reeves: You would like to see transitional arrangements that keep us as close as possible to our current relationship, but also you want to see the final deal preserving some of those existing features.

Tom Williams: Exactly. What we have today is a very efficient model.

Mike Hawes: It depends what you are transitioning to. How fundamentally different will that arrangement be? If it is a free trade agreement, what is the nature of that? It is hard to foresee exactly where you are transitioning to. If we leave Europe, let's say in March 2019, what happens on day one? We would hope it is, to a large



extent, business as usual in terms of the operation of a particular sector. It is important, in as far as the Government can provide those assurances, that they have that long-term view in mind.

Similarly, in our industry we generally work on a product cycle of between four and seven years. An investment or product-allocation decision taken today will result in start of production in the beginning of 2021. Companies will be looking that far in advance. That is a four-year horizon as a minimum to see the likely trading conditions, hence cost arrangements, that we would have in four years' time. If the Government could give some sort of assurance they will be looking over those sorts of timescales to give as much certainty in uncertain times as they can give to industry, that would be much better received.

Q419 Rachel Reeves: I accept that and that all makes sense, and yet so far we have not seen investment decisions go against the UK. What you are all suggesting is that you need that certainty, otherwise it is going to make those investment decisions very difficult, but Nissan and others have made decisions that are many years into the future despite that uncertainty. How do we marry those two things up?

Mike Hawes: Certainly I believe that companies have been at least sitting on their hands for the last four or five months, waiting for a bit more clarity. Certainly, the Prime Minister's speech last week provides a degree of clarity in terms of the direction. Each individual manufacturer will be in a different position. You cannot draw conclusions from one manufacturer, though it was great news that Nissan did commit there. They were in a position whereby, looking at their model portfolio, they were looking at: "We need a new model"—in this case Qashqai/X-Trail—"to come on stream in 2019 or 2020—"and we cannot wait any longer". They would have looked at the alternatives in terms of location.

The UK, at the moment, still is the best option for the scale and the volume that they need. Obviously, the UK is a highly productive place to make vehicles. Another company will potentially be in a very different position, and each of these companies has to make decisions every one, two or three years, because they generally have two or three models. We are putting together the data as best we can, but I sense the amount invested over the last 12 months will not be as high as the proceeding one, two or three years.

Q420 Rachel Reeves: Finally, on the transitional arrangements themselves, you have suggested, Mr Hawes, that it is important we do not have a cliff edge in March 2019, especially if it is a big change and the new relationship looks very different. You do not want to have that cliff edge, which I understand. Are there any other features or other reasons why we need transitional arrangements? Is it just to avoid a cliff edge? Perhaps, Mr Carter, in your sector there are other things that transitional arrangements might need to either preserve or ensure for your members and industry?



Richard Carter: Avoiding disruption of trade for our business and the industry, assuming that we stay in REACH and the regulatory framework, would be a fundamental enabler for us. The question of how long a transition needs to be depends on the specific element, but certainly in the case of regulation, it is many years if we do not stay in REACH. In terms of tariffs, I already outlined the detrimental impact. The key is that we have time to implement what has been decided on. In our company, that means maybe investing in IT systems or bringing on more people. It really depends on the issue.

Q421 **Rachel Reeves:** To clarify, the bigger the change in our relationship with the European Union, the longer the transition required, because of the adjustments you would have to make. If, Mr Williams, you got what you would like to see—preserving the arrangements around customs, visas and movement of talent—you would not need a very long transitional arrangement. However, if we were to go to WTO rules and similar rules for myriad people that we have with the rest of the world, then you would, for your industry, need longer transitional arrangements to get used to that.

Tom Williams: It depends on the complexity and the depth of the change. Also, from a government point of view, we would expect the UK Government to try to maintain the stable macroeconomic climate during that time. That is also important for us in terms of research, technology and the supply chain.

Chair: That is a very big and different issue, which we are not discussing today.

Q422 **Rachel Reeves:** Mr Hawes, do you have anything to add?

Mike Hawes: No, I would just endorse that. We talk about these transitional arrangements. If we are outside the customs union, the way the model works will have to change, because we take advantage of the customs union in, as I was saying before, that frictionless movement of parts, components, engines and vehicles in and out. You would have to put alternative arrangements in, potentially because you would be putting impediments, barriers and delays into the process. That needs time to take effect and, not least, there is a question of how much capacity you have in the ports for those additional delays.

Q423 **Mr Steve Baker:** Good morning. Mr Carter, you put in a passionate defence of free trade, with which I agree. You talked about the harm that a 5% tariff could do. Have you considered what consumer detriment is being suffered in Europe at the moment as a result of the 5% protection that Europe applies in relation to chemicals and your industry, generally?

Richard Carter: I am afraid I cannot answer that question off the cuff, but I can certainly get back to you.

Q424 **Mr Steve Baker:** Would you agree with me that consumer detriment



HOUSE OF COMMONS

will be in place because of that 5% tariff that the European Union applies?

Richard Carter: From our point of view, any tariff is a disruption and a cost. The cost, at the end of the day, has to be borne by somebody. The question is where that additional cost lands.

Q425 **Mr Steve Baker:** You would prefer to be in an environment of tariff-free trade with the world, presumably.

Richard Carter: Based on our situation in the UK, our trade flows for BASF are 60%, 70% with Europe. When we look at the chemical industry in the UK, that is also reflected in the current chemical industry trade-flow structure. There are opportunities in other markets without doubt, but predominantly our closest trade partner, as I alluded to, is the EU.

Q426 **Mr Steve Baker:** That is a good explanation for the priority that you have applied, but I am extending the principled argument that you made. I am asking whether your firm is in favour of free trade with all countries in the world.

Richard Carter: We are in favour of an environment with the lowest impediments to trade, because we see trade as being beneficial. That is why we are certainly in favour of tariff-free access to the single market.

Q427 **Mr Steve Baker:** Would you be in favour of surrendering that 5% tariff on the European market that other exporters wishing to bring their products into Europe face? Would you be willing to see the European Union adopt a 0% tariff on chemicals?

Richard Carter: We would strongly favour the status quo, which is zero.

Mr Steve Baker: Within Europe.

Richard Carter: Within Europe.

Q428 **Mr Steve Baker:** You are very happy to have Europe as a protected market for the chemicals industry, but 0% within Europe.

Chair: The question was whether you would prefer to have a zero common external tariff for chemicals. I am right, am I not, Steve?

Mr Steve Baker: That is correct. That is another way of putting the same thing, yes.

Richard Carter: There are pros and cons of that. We would have to do further analysis in looking at that.

Q429 **Mr Steve Baker:** Free trade within Europe is fine but we have to stop and think about free trade with the rest of the world.

Richard Carter: Again, there are pros and cons, and if we look at the development of exports from the UK chemical industry going into the US, we see a very positive trend. Again, it depends on where the



HOUSE OF COMMONS

starting point is; coming from the status quo, our supply chains and trade are very dependent on Europe.

Mr Steve Baker: Given that other colleagues will want to come in, I will not labour this anymore.

Q430 **Chair:** Before we move off this, it is relevant to say that government policy for a generation has been to try to reduce the common external tariff to 0% eventually. It has been government policy for a very long time that these barriers should be reduced and eventually eliminated, but I do not know what has been said on the chemical side. Correct me if I am wrong, but are you saying you would not agree with further reductions in the common external tariff, which after all has fallen a good deal over the last 40 years?

Richard Carter: No, I am not saying that. I am saying that, in general, the lower the tariff, the better for the cost of doing business in the UK, not just for BASF but also for the industry.

Q431 **Chair:** We are talking about a relationship with the rest of the world, not a relationship with the rest of Europe here. We are talking about the common external tariff. Just to clarify that reply, you do appear now to be saying that you favour a reduction in the common external tariff.

Richard Carter: A reduction in tariffs is, in general, positive.

Q432 **Mr Steve Baker:** Marvellous. You also made a plea for the REACH regulatory framework. A company in my constituency—a small, innovative company that supplies products to the NHS—was very nearly driven out of business by REACH. Without going into all the details, although they are on my website, there were two reasons why the particular regulation might have existed in REACH: either oafish ignorance of what was an appropriate thing to do to fight legionella,, or special pleading by big incumbents, leading to regulatory capture, precisely to avoid innovative firms breaking into the market. Are you aware of any instances in the REACH regulations where big chemical players have lobbied for special privilege and succeeded in achieving it?

Richard Carter: I am not aware of any specifics. Obviously, we are very aware of the REACH regulatory environment. It is highly complex. It is a regulatory body that took many years to develop. To be specific, I am not aware of any cases.

Q433 **Mr Steve Baker:** How much money does your firm spend lobbying in the European Union?

Richard Carter: I cannot answer that question of the cuff, but I can certainly come back to you with further information.

Q434 **Mr Steve Baker:** I would be very grateful if you did, but it is a material sum. Presumably you have several people in the relevant places in the European Union making your firm's views known.



HOUSE OF COMMONS

Richard Carter: As I said, I will come back to you with details. Certainly we have representation in Brussels, but I will come back to you and provide the Committee with further information.

Q435 **Mr Steve Baker:** Thank you. Would you be in favour of global standards for chemicals—minimum global standards—rather than regional standards you have to comply with variously around the world?

Richard Carter: The more harmonised regulations are, the more conducive for trade. REACH, as we have seen, has become a global standard for companies importing into and exporting from. In a perfect world, global standards are certainly to be favoured.

Q436 **Mr Steve Baker:** Mr Hawes, you were talking earlier on about the supply chain in automotive. If we were on WTO rules, supposing that a car was exported to the European Union having been finally assembled in the UK, at what points in the supply chain would you expect tariffs to apply?

Mike Hawes: Would I expect tariffs to apply?

Q437 **Mr Steve Baker:** If we were on WTO rules and a car with parts from, say, China and the European Union was finally assembled in the UK before being exported to the EU, at what points would you expect tariffs to apply in that supply chain?

Mike Hawes: Under WTO, the import of parts is between 2.5% and 4.5% depending on the source, and then there is that tariff on the export of the finished vehicle. If you are exporting a part, clearly that tariff would apply, depending on the final destination.

Q438 **Mr Steve Baker:** Are you aware of the potential for WTO compliant inward and outward processing rules to be used so that tariffs would be zero on components?

Mike Hawes: Exactly. There are some opportunities there, which is why the numbers I was giving earlier were just on finished vehicles and not on the parts—because of those flexibilities, depending on whether they would be adopted or not.

Q439 **Mr Steve Baker:** I am looking at a diagram in a briefing. It is a confidential briefing but I do not suppose they will mind me referring to this diagram. A part is manufactured in the UK, sent to Germany for machining and then sent back to an assembly plant in the UK, where it meets with a part from China before being finally exported to the EU. According to the authorities I am relying on, the only place a duty would be applied in that supply chain is when the car is finally exported to the EU. Is that a situation you would recognise?

Mike Hawes: That is one possibility, depending on the nature of the agreements and what the part is for.

Q440 **Mr Steve Baker:** Would you agree with me and the trade authorities



HOUSE OF COMMONS

here, the Legatum Institute Special Trade Commission, that it is perfectly feasible that we can have an automotive supply chain in Europe with the UK relying on WTO rules with no tariffs except on the finally exported car into Europe?

Mike Hawes: There are certain scenarios where the tariffs will be minimised. I do not know whether they would be at zero; I am not familiar with that particular research. The tariff on parts is comparatively low as it is. Tariffs are not the big obstacle to the future of the UK automotive industry within the supply chain.

Mr Steve Baker: When a public version of this paper is available, perhaps I could ask the staff to make sure it is forwarded.

Q441 **Chair:** Perhaps we could also ask if you could provide a commentary for us on this paper.

Mike Hawes: I am happy to do so, though I have not had the benefit of seeing that paper.

Q442 **Chair:** When you say that tariffs are not the main obstacle, what you are saying then presumably is that the non-tariff barriers are the main obstacle.

Mike Hawes: It depends on which part of the automotive sector you are looking at.

Q443 **Chair:** Can you just go back to your answer to the first question from me earlier in this hearing and maybe elaborate on what you mean for clarification? I think I already know, but it would be helpful if it was in the public domain.

Mike Hawes: For final vehicles, tariffs are arguably the biggest threat, but for other parts of the industry some of our members would argue that the non-tariff barriers pose as big a threat to the viability of the industry.

Q444 **Chair:** Give us an example of a non-tariff barrier.

Mike Hawes: Non-tariff barriers could potentially apply to rules of origin. It could apply to being outside the customs union and that seamless movement of parts and, indeed, some of the other barriers particularly relate to the regulation, which can often act as an inhibitor to trade.

Q445 **Chair:** You are talking about regulation as an inhibitor. Are you referring to people making mischief with these rules in order to keep products out?

Mike Hawes: Invariably with regulation, you have to comply with the regulation in the market you are going to sell in. You want to ensure in that regulation the particular needs or interests of, in our case, the UK are recognised. There are various examples of where the UK Government have been very good at ensuring the specific nature of the UK automotive interest and their needs are recognised within the



HOUSE OF COMMONS

formation of regulation. Going back to previous issues, yes, we would very much like to see regulatory harmonisation at a global level, because it would save an enormous amount of cost out of the global industry. We would certainly like to see that in future trade agreements.

Q446 Mr Steve Baker: Would you agree with me there is a profound mutual interest, which will arise out of the German car industry, such that they will want to have good relations agreed with the UK both on a customs agreement and in relation to other aspects of our trade?

Mike Hawes: I said at the beginning it would be in their interest but they, like the rest of German industry, will have wider issues as well that will be of concern to them.

Q447 Mr Steve Baker: But if everybody does what is in their mutual commercial interests, we will have a trade agreement.

Mike Hawes: In economic terms, maybe, but there are political issues. We are in the situation we are as a result partly of economic concerns but also of political concerns to the UK population.

Q448 Mr Steve Baker: So long as we do not do anything stupid as politicians, everything could be fine. It is good of you to smile at that point. Perhaps I will move on. Mr Williams, it is a long time since I have worked as a chartered aerospace engineer. Could you just remind me which bits of aircraft production the UK is not good at?

Tom Williams: I can tell you the bits we are good at.

Q449 Mr Steve Baker: What are we not good at? What do we rely on others to deliver?

Tom Williams: There are many parts of an aircraft that we are not the best at. We have specialised in certain areas: wings, engines and landing gear. In those areas, we are strong. Are you asking me whether the UK could create a new industry? I guess that is where your question is leading.

Q450 Mr Steve Baker: I am asking which bits of an airplane we are not good at producing.

Tom Williams: I have listed the ones we are good at, so you can make your own assumption for the rest.

Mr Steve Baker: What is hard about producing a fuselage?

Q451 Chair: Why do not you tell us, rather than rely on us to make assumptions? Tell us the answer to the question.

Tom Williams: The list would go on too long, but we are not the experts in terms of developing fuselages. We are not the experts in developing avionics, I believe, today. We rely on many areas and suppliers not just in Europe but around the world. Aerospace is a global



HOUSE OF COMMONS

industry. We use suppliers in Japan and North America. We have many suppliers worldwide.

Q452 Mr Steve Baker: I admit it is a long time since I did the structural calculations for an aircraft fuselage, but I do not remember them being very hard. I also remember the calculations being similar, if not harder, when you made wings. I am struggling to see why the UK could not produce a whole aircraft if it wanted to.

Tom Williams: That is a very intriguing idea. If you go back 40 years ago, in Europe there were a number of aerospace companies with clever products: BAC 1-11, the Trident, the Sud Aviation Caravelle. 40 years ago, the whole European industry had 11% of the world market, which was dominated by the Americans. The Americans would love to get back to that model. It is only because of the success of Airbus as an integrated company that we own more than half of the market today. We mess around with that model at our extreme risk. It would be extremely naive to think that we could go back to recreate an industry for which the barriers to entry, with the technology of today, are enormous.

Q453 Mr Steve Baker: Is it not the case that aerospace is always a strategic concern to a government? Any government, for defence and transport, are going to think that aerospace is a strategic interest for that nation state.

Tom Williams: You could take the view there are many countries around the world that look at aerospace today, and the success the UK has as the world's second largest exporter of aerospace components and goods, and envy that and want to develop more products. That is why you can see developments in China and emerging competition in China, Russia and there will be some in India. Many governments would say that that is a great industry. It is high-tech, high pay and it is about research and skills. It is a long-term industry. A lot of people want to enter into this business.

Q454 Mr Steve Baker: You and I will be familiar with the Swedish Gripen and the French Rafale. You and I will both know about the development of the EAP, which solved all of the really important technical problems of Eurofighter Typhoon, and you will also know—and I am grateful you are smiling—along with me how long it took to move from EAP to Eurofighter Typhoon. Like me, you will know just how difficult it is to collaborate around Europe, not only on Typhoon but on the EuroJet 200 engine for it, on the RB211, the RB199 and the Tornado programme. Will you not agree with me that the reason we have Airbus is not because technically we cannot produce airplanes in the UK but because it is in the strategic interest of a new federal European nation state to have one aerospace industry that deals with Europe's strategic interest in aerospace?

Tom Williams: You made some comparisons and you are going through my career a bit. It is a bit like a walk through history, because I worked on all of those programmes; not all of them were successful. If we did



HOUSE OF COMMONS

not have Airbus today, we would have had to have created it. We could not compete worldwide without the system that is Airbus. It is significantly different in commercial aerospace than it is on programmes like Eurofighter. I remember well, because I was involved, all the discussion on EAP and the evolution of Eurofighter and Rafale. In Airbus today, we see, yes, a European business, but it is a European business 74% owned in the free market. It is a shareholder-driven company. Decisions in our company are made not for political reasons but for what is best in the long term for our customers and company.

Mr Steve Baker: The Chairman has indicated I should stop, so I will not raise Embraer or HondaJet.

Q455 **Chair:** I have one more question in this area. Would Airbus continue to prosper, or perhaps even survive, without us?

Tom Williams: We have an expression: if it was not for our wings, it would just be a bus. I remind my European colleagues of that all the time, yes. We have tremendous centres of expertise, wings and powerplant in particular, in the UK. It is very important that we are able to be part of that model.

Chair: We have got that, but what is the answer to my question?

Tom Williams: For me, it would be a pretty scary model if we had Airbus and we did not have a successful business in the UK. It is also a very productive business, I should say. If we did not have our operations in the UK operating seamlessly, as I talked about earlier, that would be a really big concern for us.

Q456 **Chair:** It would be a really big concern for the rest of Airbus without us.

Tom Williams: Yes, it would.

Chair: That is what I am asking.

Tom Williams: I am sure there would be many people in Seattle and Washington who would be more than delighted to see this scenario played out, because they will take every opportunity to try to undermine the success of Airbus. I take the view that whatever is being decided in Washington will also be done very much with what is good for Seattle. We enter into a dangerous phase.

Chair: I have lingered on that a long time, and there is a statement on Article 50 at 12.30 pm that some colleagues might want to go to. There has been a rather interesting judgment today, on which many colleagues will want to say something.

Q457 **Wes Streeting:** It is not a surprising judgment, and similarly unsurprising is the Prime Minister's clarity, last week, that considerations around public opinion on immigration will trump the economic interests of the country. Although all of the growth forecasts assume we need some



HOUSE OF COMMONS

inward migration of people to help contribute to growth, and we need those tax revenues to fund public services and more people of working age to fund our ageing population both in terms of retirement costs and social care, we are disregarding all of that because people want more control over our borders and fewer people coming in.

Given that we are where we are, and given that the Government has yet to set out what kinds of controls they want to impose with our newfound freedom outside the European Union, let's assume the Government are applying the same sorts of restrictions to EU migration as they currently do to non-EU migration. What impact would such an immigration policy have on your firm's ability to recruit people with the skills needed to support your various operations and future success?

Mike Hawes: Within the UK automotive sector, as I said, we are part of a European if not a global industry. On average, around 10% across the sector are non-UK nationals. You will get different concentrations. If you think of some of the household names—I mean the very specialist companies, of which the UK has a number, of which we are particularly proud—and you look at their engineering departments, there may be a 50/50 split. It is fabulous that at least half of them are UK nationals, because they attract people globally.

As you dig into the supply chain, again the number can go up beyond 10%, depending on location, because they struggle to recruit people into these industries. Anecdotally, I was visiting a company last year that has a massive great sign out the front that says, "We are hiring," and they cannot get local people in sufficiently, because it is a relatively high area of employment, which is fantastic. They have to look abroad. They are about 30% non-UK national. We have 5,000 unfilled vacancies in the industry that are critical and we need to fill. That is partly to do with skill development.

Again, our industry, like so many others, has apprenticeship programmes and graduate training programmes. They are growing their own. They are doing everything they can to get young people to take the right sorts of subjects to pursue a career in manufacturing—but you are turning around a battleship. We need to have the ability not just to fill that skills gap but also, as Tom mentioned earlier, to help our talented individuals get global experience, because that is equally important to UK companies as it would be to any others.

Tom Williams: For me, in terms of recruiting talent, we are able to recruit the talent we need, pretty much. Generally, we recruit locally, because that is pretty much the way we do things. We sometimes struggle because we set very high standards in our apprentice training programme—and we will not drop those standards. I do have concerns about the strength of mathematics and science in particular. That is an issue for us, and there is also an issue about how we encourage more girls to come into aerospace, which is an important subject for me.



HOUSE OF COMMONS

The comments I made earlier on about moving people were not so much about recruitment; that was about career development. The people I am bringing in are not cheap labour. I am not bringing them in as low-cost labour. They are generally people who are in their late 30s or early 40s. They are coming for three to five years, because if they do not get multinational experience, they cannot be promoted. Of course, they do like to come to the UK, because they also get to strengthen their English language skills, which is extremely important for their development, and vice versa: as I say, I have 600 French and Germans and I have 1,800 Brits working in Europe. A lot of those people will go there, do their three to five years and come back.

At the end of it, I would also say that, leaving aside the European dimension, it is not a huge issue for us, but we do need to recruit the right talent. If the very best aerodynamicist or physicist with a very strong mathematical background happens to be an Indian, then I will take the Indian—because I know my competitor will. We need to be able to bring the best talent in the right places, but it is not mass-migration issue; it is a very specific situation.

Richard Carter: Building on some of those topics, while 95% of our workforce are British nationals, we do depend, in certain locations, to a very large extent on EU migrant workers. For example, at one of our sites where there is a low level of unemployment we are dependent on EU migrant workers on the production line, where they play a key role for us. It is not just about recruiting; it is about having the ability to bring in people within the BASF Group at very short notice.

I would like to give you one example: we invested tens of millions of pounds in our plant in Bradford last year, and the project team working on that was a multinational team with engineers coming from Germany. We operate our talent pool across borders. That is the one point I would like to make.

From the industry point of view, at big chemical sites, when we go into regular turnaround—these are big maintenance jobs, when plants every three to five years are taken out of production—we are very dependent on EU migrant workers to come in and do those large-scale turnarounds. There is a very high degree of dependency.

Within the BASF Group, we also have UK nationals working in Europe, primarily in Germany. Again, it is talent development. We delegate people in and out of the UK, and it is a key point of our personnel development.

Wes Streeting: Thank you, that is very helpful. Mr Williams and Mr Carter, I want to pick up with you the issue of intra-company transfer. There is provision within the immigration system for non-EU migrants through Tier 2, the intra-company transfer route. However, there are some caveats in all of this. Intra-company transfer visas cost between £600 and £1,800, and again for any dependants. They cannot last for



HOUSE OF COMMONS

more than five years unless the member of staff earns more than £155,000 a year. They require substantial documentary evidence from both employer and employee to show eligibility. Of course, there are also varying degrees of length of stay, depending on length of service and the amount you earn. Graduate trainees or short-term staff, for example, might be given a 12-month visa. The Home Office also has to be satisfied the position cannot be filled by a resident worker. What difficulties would those sorts of conditions, if any, prove to you in terms of intra-company transfer?

Tom Williams: In our business for the development of aerospace, we are often forming virtual teams. We put teams together in a matter of days to address problems, whether it is a technical problem or a development problem. We bring 30 or 40 people together in one place to work on an issue and then disband that team and send them back. That is done in almost real time, reacting to the situation.

If you then tell me, "You have to go through a long, visa-driven process and prove all of this, send evidence and wait for a result," then those developments will be done elsewhere. The system will just find a solution, but it will not be in the UK.

Richard Carter: I would simply like to add to that. You mentioned the cost involved, but there is also the time factor. Right now, we see a significant difference between the time it takes to go through the process to bring in EU nationals and non-EU nationals. Minimising the time needed to process applications is a key point, from our point of view.

Q458 **Wes Streeting:** Unfortunately, once you have pulled together all your documentary evidence to satisfy the Home Office—this is assuming they reach a reasonable judgment, which in my experience of casework is very unlikely—you should get a decision on your visa within three weeks. If you are prepared to put in the time, energy and effort and wait three weeks, you can get together a group of people in the UK to sort out some of your problems. I wish you well in that endeavour.

Moving on to the evidence the Chancellor gave to our Committee, he has provided some good news in that he does not want to restrict the flow of migrants who are—I am quoting now—"computer programmers, brain surgeons, bankers and senior managers". That is great news for computer programmers, brain surgeons, bankers and senior managers, those parts of the economy they serve and members of the public—but are you disappointed by the list the Chancellor has given us? Would you like to suggest any amendments to his fairly narrow set of exemptions?

Mike Hawes: I would suggest engineers.

Wes Streeting: Yes, engineers. Who would have thought?

Tom Williams: Yes, engineers.

Richard Carter: I would suggest chemists.



Wes Streeting: Engineers and chemists, yes.

Richard Carter: Also, however, as I alluded to, some of the labour requirements we have in the industry in BASF are not at such a high-skill level. We are also talking about the ability to bring in fitters etc. for the more technical trades that are required.

Wes Streeting: That is fair. There is one final thing that I wanted to ask you this morning. We have covered some of the issues around the red tape that would be associated with a work-permit system. I am curious, though. You already have lots of European workers within your workforce. You must be, as many employers are, talking to them about their perceptions of how this debate is playing out and the impact it is having on their future. They may be existing European employees working in the UK now or those who potentially have made the decision, as part of their career development, to come to the UK at some point in the coming years.

What impact is the coming debate around our future relationship with the European Union having on their aspirations either to stay here and to contribute or to want to come here? In particular, given where freedom of movement sits in the list of Government's priorities for renegotiation—i.e. above the economic interests of the UK—how is that playing out around the boardroom in terms of business decisions about your future engagement with the UK?

Tom Williams: Certainly, for me there is a concern. It would be wrong to exaggerate that. People are waiting to see what the outcome will be. People are worried it means a lack of commitment to the success of Airbus in the future. That is almost more important: does the UK not really care about the success of Airbus in future? Is all of this leading into a strong risk of damaging what has been a tremendous success story?

Richard Carter: The key point relates to the uncertainty that individuals are experiencing. From conversations I have had, the sooner we, or EU migrants, get clarity on the path forward, the better.

Mike Hawes: After June 24 there was, undoubtedly, a degree of shock in certain boardrooms around the world. For instance, look at the Japanese Government and the dossier they produced relatively quickly after that: it is highly unusual for the Japanese in particular to do something like that.

One of the major problems we are facing, however, is that as a sector we have been hugely successful in attracting investment and we are recognised as being open and part of a global industry. We need to maintain that. Sentiment is always part of a decision-making process. Certainly, one of the things we are challenged to do—I think Government would share this—is to make sure we still have a very positive outlook internationally and people still perceive the UK as being open for



HOUSE OF COMMONS

business. That is a real challenge, given some of the issues you have been raising.

Wes Streeting: We are open for business, but maybe not open for talent.

Q459 **George Kerevan:** Good morning, gentlemen. I would like to pursue some technical questions, which flow from the notion that Britain will be out of the customs union. Perhaps I could start with Mr Carter. As I understand it, chemicals is a bulk-transfer industry, so borders become an issue. Do you have any sense of how the UK being out of the customs union might affect the chemicals industry in terms of border checks, customs checks or similar?

Richard Carter: One of the concerns we have and the industry has is that we are dependent on the seamless flow of goods and services in our industry. I alluded earlier to the cost of tariffs, but there is the issue of potential disruption by putting up barriers in terms of new customs procedures, the cost of those customs procedures and time delays.

We have to bear in mind that, whatever solution the UK comes up with, we are also dependent on reciprocal treatment on the other side for our exports. It is an issue we are watching very closely, and we certainly hope the disruption would be minimal if tariffs were to be introduced.

Q460 **George Kerevan:** Do you have any advice on how that could be achieved? How would we minimise the disruption?

Richard Carter: Coming back to transitional arrangements, it is very important that companies have time to adapt in-house and with their partners. It is also a question of what exactly we would have to comply with. I am alluding to IT systems in terms of imports and exports.

George Kerevan: Has the company been able to do any advanced analysis of the potential costs?

Richard Carter: We have not done advanced analysis, because we do not have a very clear framework to work on. However, for BASF in the UK, we estimate additional costs in the region of £2 million, for example, if we needed to comply with those regulations that are currently in place for non-EU trade for trade with the EU. As I mentioned, almost two-thirds of our business is dependent on the EU.

George Kerevan: Could you give me that number again and the timeframe over which it would apply?

Richard Carter: It is very difficult to commit to a timeframe, but in terms of transitional arrangements on trade we are looking for two to three years to be able to implement systems.

Q461 **George Kerevan:** Forgive me—maybe I was not clear. Over what timeframe is the potential cost that you mentioned? Is that per year? Is it per three years?



HOUSE OF COMMONS

Richard Carter: That is based on certain assumptions, obviously, but that would be a per-year cost based on the assumptions we have worked off.

Q462 **George Kerevan:** There are members of the single market, like Norway, who are not members of the customs union. Do you have any experience of operating cross-border with Norway that would give us any guide as to what we would need to deal with in terms of UK firms now being outside the customs union?

Richard Carter: I do not have any specific experience there, but we can certainly get back to you.

Q463 **George Kerevan:** Mr Williams, we will move to aerospace. If we defaulted to WTO rules, I understand there is still—you mentioned it right at the very beginning in discussion with the Chairman—a special arrangement within the WTO for a group of 32 countries, including the United States and major EU countries, for the trade of civil aircraft and civil-aircraft components without tariffs.

Tom Williams: That is correct.

George Kerevan: Why, then, would we not simply default to that? Would coming out of the customs union not be an issue?

Tom Williams: My point, certainly on the tariffs, is that it is not an issue in aerospace, because that is a long-running agreement that has been in place. My point earlier to the Chairman was about dispute resolution and the ability of the WTO. After 15 or 16 years, there is still no clear solution to the Large Aircraft Sector Understanding. In that situation, I would be concerned about its effectiveness in such a model.

George Kerevan: The WTO agreement exists, but it has deep flaws. Is that what you are saying?

Tom Williams: You could question the effectiveness of parts of it. That is the point I was making.

Q464 **George Kerevan:** Have there been particular instances where—despite having, under WTO rules, the freedom to move aircraft products free of tariffs—in fact the rules have proved non-operative because you could not get a resolution?

Tom Williams: No, the particular comment I was making was about the fact the WTO had found against Boeing for the \$7 billion of subsidy they received for the development of the 787. I do not expect anything to happen, however.

George Kerevan: You do not expect Boeing to pay.

Tom Williams: I would be surprised.

Q465 **George Kerevan:** Going on from there, if the aerospace industry is



outside the customs union, does that create any particular issues when it comes to rules of origin and compliance with rules of origin? Let me put it this way. The Government are clearly going to try to do sectoral free-trade deals—that is what they have announced. Therefore, one could see how that could be achieved in terms of tariffs, but, within the rules, you would then have to deal with the rules of origin. Would that give you particular difficulties? How would those be resolved?

Tom Williams: Rules of origin is complex, especially when we have materials that could be coming from conflict zones and those kinds of issues. In those situations, we face an already fairly complex environment, but it is one we can make work. I do not see that as being such a big problem.

Today we give full transparency to the customs authorities. The guys come and do snap inspections, and that system works pretty well. It gives the right level of transparency and oversight for the authorities to make sure there is nothing illegal. It is done in a very seamless way, however. We have built our industrial system around today's model, and we need to maintain that.

Q466 **George Kerevan:** I infer from that you are saying all of the information that would be required to deal with rules-of-origin compliance is already there. It is just a matter of accessing it.

Tom Williams: We already put a lot of effort into ensuring we have traceability for things like conflict zones and those kinds of issues. We need to be able to track that with a lot of clarity right back through our supply chains, to several tiers down.

Just going back to the environment, I would make one last comment. You talked a lot about customs. Clearly, for our industry a very specific issue is that we also operate under the EASA, European Aviation Safety Agency, umbrella. That umbrella allows us to have production organisation approval, because it is very strict in the aerospace industry, quite rightly. Clearly, our membership and UK companies' membership of EASA is extremely important, because it is the major rule-making group.

Clearly, the other rule-making group is, of course, the American Federal Aviation Administration, which is also a very respected organisation but, of course, has as part of its mandate the success of the American aerospace industry. We need to have EASA as a strong voice to counterbalance that situation. We must avoid having multiple approvals. That would be a burden in terms of administration.

Q467 **George Kerevan:** You are worried that being outside of the main European rule-making bodies for aerospace would leave the UK caught between the Federal Aviation Administration and EASA?



HOUSE OF COMMONS

Tom Williams: It could do that. It could impose a further burden of certification and approval—and, more importantly for the UK voice in terms of rule-making, it would mean that we and people at Rolls-Royce would not be at the top table when we are determining rule-making for the future. That would also be a dangerous situation.

Q468 **George Kerevan:** It might be unfair to ask you this, since it is a different company, but of course Rolls-Royce shares rose quite considerably post-Brexit as the pound fell.

Tom Williams: I cannot reflect on that. On currency, we take the view that we hedge long term. I am sure Rolls-Royce do the same. I would take the view that they are more concerned about having stability in currency, because, at the same time, they buy in dollars.

Q469 **George Kerevan:** Before we stray too far into those areas, I just want to confirm something. On the issue of rules of origin, which would become significant if we left the customs union, you believe there is enough information in the system such that, while it would be an added burden, it would not be a significant added burden for you to deal with.

Tom Williams: Yes, with the IT tools we have today, we can have traceability. We have to make sure we have rigorous audit in place to make sure that whatever is in the system is valid, but it is a challenge we can overcome.

Q470 **George Kerevan:** Mr Hawes, finally, on the motor industry, standards and compliance with standards becomes an issue if we leave the customs union. How would you deal with compliance with technical and safety standards? Is that a particular burden?

Mike Hawes: I would never say a safety standard is a burden. Clearly, as I said, you make the vehicle to comply with the standards of the market in which you are going to sell. The European market is a big market; it has a regulatory standard that is often adopted elsewhere. If you look at China, for instance, it is adopting European air-quality regulations. Clearly, there is an advantage, in terms of influence, in the UK having a seat at that table when these regulations are created. The UK has an automotive industry with a unique nature, with a long tail of small, luxury sports car premium manufacturers, whose ability to manage a product portfolio is more confined. As I said before, we have a good track record in ensuring they can compete and grow both in Europe and internationally. Having that regulatory influence is important.

Secondly, in terms of looking at the wider regulations, yes, we would very much like to see harmonisation of regulation. Certainly, with any free-trade agreement, one of the real benefits would be that you have on the table the opportunity for mutual recognition of regulation. That was the real appeal of TTIP. The tariffs were not so much the issue; it was the opportunity to look, initially, at regulatory recognition, potentially moving on to harmonisation. That would give significant savings



HOUSE OF COMMONS

especially to small-volume manufacturers, who have huge compliance costs, because of the different nature of regulatory impact.

The third point is that, at the moment, we produce vehicles in the UK and they are type-approved in the UK for sale anywhere across the European Union. In the future, we do not know what the status would be of, in the UK's case, the Vehicle Certification Agency in giving type-approval authority. Certainly, if you are developing new products in terms of research developments, it is always better to have a type-approval authority comparatively on your doorstep. It makes that flow between product development and the certification that much simpler.

Q471 **George Kerevan:** Tell me whether I understand this correctly. We have local agencies to certify the compliance of manufacturers with global international safety and environmental standards.

Mike Hawes: Yes.

George Kerevan: Within the EU, those domestic compliance operations are deemed to be equivalent across the EU.

Mike Hawes: It is a single standard across the EU. As you negotiate free-trade agreements, one of the issues you would want to discuss is that issue about mutual recognition. For instance, a Korean type-approval will be type-approved to a different standard than we have in Europe, but they are believed to deliver the same outcome, basically: a safe, fuel-efficient vehicle.

If I could go back to TTIP, that is one of the benefits we would have hoped TTIP would have been able to deliver. It would have saved a huge amount of money in development, R and D and compliance costs—and those burdens are so significant that some small-volume UK manufacturers do not enter into the US market.

Q472 **George Kerevan:** In negotiating a bilateral free-trade agreement for the sector with the EU, we would have to ensure that conformity and the ways of ensuring conformity with the standards being set in the EU was built in.

Mike Hawes: Yes, exactly. When we have the Great Repeal Bill, it will obviously take all the regulation that applies and make it part of UK law. What we have to continue to do is make sure there is no subsequent divergence, because, whatever happens, if you are going to sell into Europe you are going to have to meet those European standards.

The UK market is not sufficiently large for a unique UK type-approval standard. Manufacturers will say, "Okay, we will make to a European standard." If they had a large volume in the UK, they might say, "Okay, we will make it to a UK standard," but you would see a contraction of consumer choice. At the moment there are 400 different models on the market because it makes economic and financial sense for companies.



HOUSE OF COMMONS

Even if they are only selling 2,000 of that model in the UK, they know they are selling a sufficient number across the rest of Europe to that single standard that it is worth type-approving that vehicle.

Q473 George Kerevan: I have one final point, then. To achieve that kind of universal recognition, are we not, therefore, still in the situation of having to find some kind of supranational regularly authority to police those common standards?

Mike Hawes: It exists in something called UNECE. The UK has a seat at the table. The European Union probably has the biggest voice there, given its volume. Certainly, the UK has a seat and it has the opportunity to influence. You would always want to maintain this high degree of commonality between different markets. Ultimately, you want to get to the stage of global technical regulations, of which there are some—but, again, it is a painfully slow business getting them agreed as an international standard. We would like to see that accelerate, and anything the UK could do in the future to accelerate that would be very welcome.

Can I come back, if I may, on the rules of origin? This is a major concern for our sector. As it currently stands, most free-trade agreements require a rule of origin whereby normally, say, 55% of the content of the product, in our case the vehicle, has to come from the originating country. If you look at the current one at the moment with South Korea, at least 55% of the content of a Korean vehicle coming into Europe must come from Korea to have tariff-free access. Equally, 55% of cars coming from Europe has to be European content. If we, as the UK, are outside of counting as European content, then we are in a much more challenged position because, as I said, the average UK content is only 41%.

We easily sail past the 55% if you count the European content along with the British. If that is no longer counting, we will be disadvantaged. The big challenge this industry has been faced with over the last five or 10 years is trying to build up the local content. It has gone from 35% to 41% over the last six or seven years. By comparison, Germany is at about 65%. We still have some way to go. We want to do more of this, but at the moment it would be a concern in the ability to secure a future trade agreement, because potentially UK products would not meet the threshold to qualify for that free trade.

Q474 George Kerevan: That would be a flashpoint in any negotiations on that sector.

Mike Hawes: Yes. There is a way around it with a principle called the “diagonal accumulation” of rules of origin. That is a long phrase that basically means that, for certain products, certain areas outside that defined area, outside the EU—Morocco for instance—count as Europe for the purposes of the trade. You would have to ensure you could secure that in any free-trade agreement. Whether that was with Korea, the



HOUSE OF COMMONS

United States or Australia, they would have to recognise that the European content would count towards UK, and vice versa.

Q475 **George Kerevan:** This is my final point. You are also suggesting that, therefore, there is an incentive under such rules to increase the UK content of the product.

Mike Hawes: There is—but it is a bit like the chicken and the egg. If I am honest, we have struggled to grow the supply chain. It is taking a very long time. I have certainly had discussions with potential suppliers looking at the UK. They like the UK. They see manufacturing is growing; they see it is productive. However, they know we have a skill shortage.

Basically, if I were to set up a new supply-chain factory wherever, would I get the people when I know my competitors who are there already are struggling to get the people? Secondly, what is the long-term volume that these manufacturers are producing? To a certain extent that is the question, given these uncertainties. It is not an easy sell. Certainly, all the manufacturers are very much focused on this, because it does make sense to try to re-shore the supply chain that left over the last 20 years.

Chair: What you are saying is we need Moroccan trade preference for cars. Have I got that right? That is a new fact that has been brought to the table.

Mike Hawes: It would be recognition that the content from the UK would count towards European content and vice versa.

Q476 **Chair:** I was being a bit frivolous, but there is slightly more serious point lurking very close, which is a point that has been made to me on a number of occasions. It is not just that we may have a rules-of-origin problem and that the rules of origin will take time to negotiate; it is that that whole process generates a very substantial business cost—and that has to come out of the bottom line. Therefore, it makes your industry less competitive. Have you tried to calculate what that might be by looking at countries that do have to go through this to get into our markets?

Mike Hawes: You are correct. It is very difficult to calculate. One independent academic report gave what it described as a “conservative” estimate of some of the non-tariff barriers, of which this would form part, as equivalent to at least a 6% tariff on goods.

Q477 **Chair:** This has always been considered the most important single issue. You are now putting it at, at its highest, 6%. It might be helpful if we could have the considered view about the value of that, in the context of tariff equivalents as well as in an absolute term. Both of those would be valuable.

Mike Hawes: We will endeavour to try to do that, complicated though it is.



HOUSE OF COMMONS

Chair: You may have to do it anyway very shortly, however, as part of a business-cost case. After all, we are going to be gone in two years. You do not have very long to do the calculation.

Mike Hawes: Obviously, it depends on the timescale of your Inquiry, but, sir, we will endeavour to do so.

Q478 **Chair:** Mr Williams, the same calculation may be required for your industry—and yours, Mr Carter. Would you both undertake to do the same work?

Tom Williams: Yes, we will take a look. I do not know what information we have available or how robust that information is, but I will check.

Q479 **Chair:** You can send it in with the necessary qualifications if you think that is appropriate. What about you, Mr Carter?

Richard Carter: Similarly, we will take a look at that.

Q480 **Helen Goodman:** I am very pleased to see you all this morning. People sometimes forget that most of our exports are exports in goods, not exports in services. Last week, the Prime Minister set out three possible options for the customs union. We must either “reach a completely new customs agreement, become an associate member of the customs union in some way, or remain a signatory to some elements of it”. Mr Carter, have you any idea about how the options she was talking about might work in practice?

Richard Carter: Based on the statements made, we have not made calculations on those scenarios, because our fall-back position has been to calculate what would happen if we reverted to WTO. The answer is, no, we have not calculated those scenarios. We would need more clarity in terms of what they really mean. As soon as we have further information, we could then obviously run further calculations and scenarios.

Q481 **Helen Goodman:** Mr Williams, what was your reaction?

Tom Williams: Yes, mine is a similar answer. We will wait to get some clarity, rather than do endless modelling of things we do not know for certain.

Q482 **Helen Goodman:** Yes, that is quite reasonable. What I think she is hinting at at the end in “remain a signatory to some elements” is this idea of doing sectoral deals. I want to ask you how much in practice that is practicable. My constituency is in the North East, and we are part of the Nissan supply chain, but we are part of other people’s supply chains, too. I will ask Mr Williams first and then Mr Hawes. To what extent is it possible to have some neat and tidy sectoral boundaries—on top of the other boundaries, of course?

Tom Williams: It will be extremely difficult, as we cascade that down through the supply chain. If we have a supplier in your constituency that



HOUSE OF COMMONS

is supplying me but is also supplying automotive, as can sometimes be the case, under which rules does all that operate? We have to be careful about how much complexity we push down. It is one thing for big companies to deal with complexity; it is entirely different burden when you push that down two or three tiers in the supply chain.

Q483 Helen Goodman: Of course, yes, absolutely. That is particularly the case with the rules of origin. What is your view, Mr Hawes?

Mike Hawes: I would agree. If you are looking at a specific sectoral deal for automotive, first of all I do not know whether it would qualify under WTO rules. My understanding was that it would have to be broader, i.e. the sector would be manufacturing, but I would leave it to better heads than mine to understand what is permissible.

If you look at automotive, one of the challenges clearly would be about what would qualify. Certainly, for example, you could figure out that, yes, steel coming in would be part of that, and potentially glass. What about the importation of ECUs? A huge number go into a new vehicle, but ECUs go into a number of other products. How that would be defined and where you draw that could be quite complicated.

Ultimately, however, we took some comfort from the Prime Minister's statement last week. Clearly, she recognises the specific challenges that automotive faces with some of her remarks about how some elements of the single market clearly benefited what she described as cars, lorries and financial services, and certainly how a customs union affects manufacturers, who obviously provide a large share of UK exports.

Q484 Helen Goodman: Last week, we had HSBC up, and I asked them what feedback they had on the problems they would face if they did not get passporting to manufacturing. I am going to ask you the mirror-image question. Mr Williams, if you do not get what you want and you are disadvantaged, what will the impact of that be on your purchase of lawyers, bankers and people like that? Maybe, of course, your purchase of lawyers is about to shoot up to handle these negotiations. In a steady state, however, what will the impact on them be?

Tom Williams: We would have to look at the impact in areas like aircraft financing, because it is very important for us that there is also a strong flow of financing. Some of that comes through schemes such as export credit, for example. The UK runs a very good export-credit scheme, which is well recognised around the world. It is one of the three authorities in Europe that offers that kind of financing.

For smaller airlines, and not even smaller ones—sometimes some pretty big ones—that is a very attractive option. The ability to have access to financing would be important. That can come through the City of London as a financial source or through things like export credit.



HOUSE OF COMMONS

In terms of the other expertise such as lawyers etc., we have a lot of legal support we buy, but we buy that from companies that are generally also multinational and have offices in London or offices in Paris.

Q485 **Helen Goodman:** Mr Carter, what about you?

Richard Carter: I wanted to make a comment on the complexity and difficulty in terms of defining a sector. The chemical industry is a major supplier to the automotive industry and also to the aerospace industry. A classic example is that we supply the company you referred to, Nissan, in Sunderland, where we have people embedded in that plant. We supply paint not just to this major car producer but to other major car producers. The question is: how do you define that? Where are the dividing lines or the definitions?

Q486 **Helen Goodman:** Yes. You are reminding me that I have some people called PPG in my constituency. They are making paint for Mr Williams, I think. I say "paint"; I think there is a bit more to it than paint.

Tom Williams: It is a bit more complex, but, yes, for example.

Q487 **Helen Goodman:** Yes. Mr Hawes, what is your view on this question about feedback loops into the service sector of the economy?

Mike Hawes: What is maybe not being appreciated is that the EU capital requirements directive about financial passporting does have an impact on the automotive sector. The automotive sector does have what it calls captive finance houses, which provide credit both to consumers and also within the industry. Obviously, if dealers buy cars, that is a major investment and, through the captive finance houses, you can ease that finance. We have some manufacturers whose European financial operations are based here in the UK and they operate branch operations across Europe. The future of passporting will also have a bearing, to a certain extent, on some automotive operations as well.

Helen Goodman: Do you mean on the attractiveness to European consumers of cars that are finished in Britain?

Mike Hawes: No, not so much that. I mean the operation of these particular companies. If their bank, their captive finance house, is based in the UK, there is uncertainty as to what the future ability to deliver those finance products is.

Q488 **Chair:** Are these people financing dealerships or what?

Mike Hawes: They could be financing dealerships. For instance, if you look at Ford, Ford Credit is their large finance arm. That is based here in the UK.

Q489 **Chair:** Okay. What are they doing?

Mike Hawes: They are providing finance for dealers but also finance for consumers as well.



HOUSE OF COMMONS

Chair: They are providing direct-to-consumer credit, i.e. loan agreements for a car.

Mike Hawes: Yes, the majority of people who purchase a vehicle these days buy it through some form of finance: arrangements such as personal contract hire or personal contract purchase.

Q490 **Chair:** What proportion of the European market is based here in the UK?

Mike Hawes: I would have to come back to you on that.

Chair: But you are telling us it is high.

Mike Hawes: I would say certainly some companies have based their European operations in the UK.

Chair: Do come back to us on it. I am sorry, Helen. I just wanted some clarification on that point.

Q491 **Helen Goodman:** Did you want to say anything else about it? No. Mr Carter, you were describing earlier the very great significance for your industry of the REACH regulations and that whole system. There are other systems for other industries. There is the European Medicines Agency for pharmaceuticals and so on and so forth.

Now, my colleague Mr Baker, who has now gone, was tempting you down the route of saying, "It would be marvellous to have tariff-free trade across the world." Is that not dependent on people beyond the reach of REACH and beyond the EU having comparable regulatory standards to the standards to which you are producing?

Richard Carter: Indeed, yes, one of the prerequisites is that companies comply with the REACH legislation.

Q492 **Helen Goodman:** What is the REACH legislation driving at? Is it a safety thing or is it about being clear as to what the chemicals are? What is the overriding object of it?

Richard Carter: REACH stands for Registration, Evaluation, Authorisation and Restriction of Chemicals. It is a broad-based regulatory framework managed by the ECHA. This has also come to play a key role in trade flows. Companies need to comply and register products within REACH so as to be able to bring products into the EU and trade products.

Q493 **Helen Goodman:** At the moment, REACH is a European system; is that right?

Richard Carter: Indeed.

Q494 **Helen Goodman:** We have comparable ones, probably, in America and Japan, say.

Richard Carter: Indeed, other trading blocs and other countries have their own legislative bodies. REACH is primarily based in Europe;



HOUSE OF COMMONS

however, the European chemical industry does play a key role in the global industry. Wherever you are in the world, anybody who wants to trade with Europe and bring products into the EU has to comply with REACH.

Helen Goodman: At the moment.

Richard Carter: Yes, at the moment.

Q495 **Helen Goodman:** Were we to leave and were we to leave REACH, however, you would wish to continue to produce to the REACH standards in order to be able to export into Europe, I suppose. What would you feel if people were allowed to sell into the UK without reaching those standards—from China, for example? What would the impact of that be?

Richard Carter: REACH is a very comprehensive piece of legislation and statutory framework. If I just consult my notes, it is 850 pages. It has hundreds of references in the legislation to the member states, to the Commission and to the ECHA. Any changes to REACH would be very onerous, because REACH is a foundation for chemical trade. If the UK were to depart from REACH, we in the UK might then be able to import products that were not REACH compliant, which we would obviously not recommend, but at the end of the day we would still be bound by REACH. As it is at the moment, the UK has a seat at the table in defining the legislation—something we do not want to lose.

Q496 **Helen Goodman:** Is there anything comparable in automotive and aerospace?

Tom Williams: As I said earlier to Mr Kerevan's question, there is EASA, from a safety point of view: they cover flight safety, but also pilot safety, training, flight operations, aircraft manufacture and aircraft design. It is a very comprehensive rule-making group. Clearly, it is important that the UK has a strong voice there in the future.

Q497 **Helen Goodman:** The potential benefit of being able to import more freely from low-cost parts of the globe would primarily be in those sectors that are low-skill and low-tech, which do not need to be regulated in the way that, for example, you are.

Tom Williams: In reality, that does not exist for our industry. If you go to a manufacturer who is making aerospace components anywhere in the world, the rules on what they can do are extremely strict. The factory looks and feels pretty much like a factory in Europe. Clearly, we would be concerned if we had a supplier who was dumping toxic chemicals out of the back door of the factory. From a public relations point of view and from a moral point of view, that is clearly not a position we would want to be in. Clearly, all of our suppliers must comply with the EASA certification rules. They have to be cleared, audited and frequently re-checked.

Q498 **Helen Goodman:** It is partly about what the rules are, and it is partly about having a proper enforcement mechanism that matters.



HOUSE OF COMMONS

Tom Williams: Yes, because then you have access to a very comprehensive global system of approvals and certifications, which people take extremely seriously.

Q499 **Helen Goodman:** If we were to leave EASA and we had to set up our own, how long would that take?

Tom Williams: It would be unrealistic to create such a model, because you clearly then have to go either with EASA or the American rules. It is not realistic to have another solution.

Q500 **Helen Goodman:** I will see whether Mr Hawes has any points on this.

Mike Hawes: No, I have a similar view. Obviously, we are highly regulated sector in terms of the safety of products, in terms of environmental performance and in terms of the way things are built, certified and so forth. I do not see a benefit in a UK-specific set of rules. Whether that is equivalent to REACH is outside my remit.

Q501 **Stephen Hammond:** Good morning, gentlemen. Thank you for coming. I was going to ask you a number of questions about regulatory standards, but most of those seem to have been asked by Mrs Goodman and Mr Kerevan before me. Still, never mind.

Mr Carter, could I just ask you a couple of questions? In your answers, particularly to Rachel Reeves, you described REACH as a “fundamental enabler”, and you made that point again in your answer to Mrs Goodman. What would be the cost impact if the UK were to be outside of REACH for the industry?

Richard Carter: We have not done any calculations or scenarios on that, because REACH is such a substantial piece of legislation. When we look at how long REACH took to be developed, from 2007 to 2018, it is a question of what the UK Government would introduce in its place. We would be very concerned, because we are talking about very long timeframes.

Q502 **Stephen Hammond:** A proposition that is put quite often is that although we would not be in REACH we would still be a member of the European Chemicals Agency, and that would overcome the regulatory barriers. You do not believe that is a correct proposition.

Richard Carter: I am unsure whether that is a correct proposition, because we will continue to have to comply with REACH to continue in business and to continue trading with the EU.

Q503 **Stephen Hammond:** Thank you. If the UK were to take the idea that we want to stand outside and establish our own regulatory regime, what are the prospects of that? One, how long would that take? Two, what are the prospects of achieving mutual recognition or equivalence?

Richard Carter: In terms of the timeframe required, we are talking about a period of between five and 10 years, because of the complexity



HOUSE OF COMMONS

of chemicals regulation. I am sorry; could you repeat the second part of your question?

Q504 **Stephen Hammond:** The second part was: what is the probability? Even if the UK could establish its own infrastructure and rules, how long would it then take to achieve mutual recognition or equivalence of standards on top of the five years? Would it be within or beyond that five-year period?

Richard Carter: That very much depends on the negotiations between the UK and the EU. It is very difficult for me to hazard a guess on that.

Q505 **Stephen Hammond:** Thank you. Mr Williams, I heard your answers to Mrs Goodman's questions about EASA. Just for the record, obviously, we were a founding member of EASA, but EASA does have four non-EU members. Could you just tell us what the benefits to the UK would be if we were outside the EU but still a member of EASA? What would the downside of that proposition be? What would the opportunities of that proposition be?

Tom Williams: For me, the problem would be that, if you are outside the legislative or rule-making part of it, having big companies like Rolls-Royce, for example, sitting outside of that would be a bad thing.

Clearly, in terms of setting up alternatives, it would be pointless. In that situation, you still have to comply with EASA and FAA rules. Even if you set up your own system, it would not be recognised worldwide. For me, it is very important that UK suppliers—this is not just Airbus, because we can have an influence through our European operations—have a voice.

Q506 **Stephen Hammond:** If we remain a member of EASA and are outside the EU, is it true that we then lose any voting rights on EASA?

Tom Williams: It depends on whether we would have voting rights. If we have voting rights, it is not an issue. If we do not have voting rights, it is a problem.

Q507 **Stephen Hammond:** You do not see any opportunities outside EASA or the EU for the UK to align with the FAA.

Tom Williams: As I say, the FAA's main intention is first of all to be a safety and rule-making body, but also to promote the success of the American aerospace industry.

Q508 **Stephen Hammond:** Mr Baker asked Mr Hawes quite a few questions about tariffs within the supply chain. I will ask Mr Hawes this question in a moment, but how key is access to the certification regime in terms of the supply chain? I am particularly interested in whether there would be delays in parts reaching you and/or extra costs if that access were not there.

Tom Williams: Clearly, I would be concerned about, again, anything that creates a burden. We spend £4 billion today in the UK—our



HOUSE OF COMMONS

purchases—and we have over 1,000 suppliers. A quarter of those are SMEs. I am always worried that we create as much burden, and I do not want to add to that burden, because they are small companies. Every time they spend more on administration and overheads and divert management attention, that is bad for the business. I would be particularly concerned about cascading down any more requirements on businesses that are often pretty stretched.

Q509 Stephen Hammond: Therefore, just for the record, in your view, would it be an impossibility for the UK to establish its own certification infrastructure and mutual recognition procedures?

Tom Williams: For me, it would be impractical. Even if you were to establish it, you would end up having to do EASA certification in any case, because, if I were a small supplier or a medium-sized supplier, I would want international recognition. If I am going to have to host an audit from EASA, why would I bother then having a separate audit under the UK? It is not worthwhile.

Stephen Hammond: Mr Hawes, Mr Baker asked you about tariff consequences for the supply chain. Following on from the question I have just asked Mr Williams, if there was no mutual recognition and UNECE standards, what would the implications be for the finished products and the supply chain? Again, this is particularly in regard to whether you could put any cost or delay estimates on this. We would be interested in those.

Mike Hawes: It is difficult to put a cost on it, but you are certainly adding cost in approving and cost in certification. Anything like that puts delay into the system.

Obviously, we operate lean manufacturing and just-in-time delivery. A part is put on a truck in, let's say, Poland; it goes seamlessly across the landmass of the continent and over the Channel with no customs checks and no delays. It is pretty reliable. It then goes to the plant, normally on a four-hour delivery window. That part will go straight to line side. There is often no warehousing involved. Anything that slows it down or gives you that uncertainty will put a degree of delay and you may have to build in warehousing to act as a buffer to maintain that steady production. That is a cost.

The point I wanted to make is that, in terms of manufacturing in particular, we operate on wafer-thin margins. A manufacturing plant is generally looking for between 2% and 4% return on investment. Anything that adds cost is going to undermine that ability to maintain a profitable business.

Q510 Stephen Hammond: Last week, the Prime Minister obviously talked about industry-by-industry deals and particularly mentioned the motor industry. For it to be of any benefit to your industry, you presumably want to still be in the customs union and still have single-market



HOUSE OF COMMONS

regulatory access. That sort of arrangement would be separate from other industries. In your opinion, what is the probability of that being achieved?

Mike Hawes: There is a good question. Certainly, as you would expect, we are trying to safeguard the competitiveness the UK automotive industry undoubtedly has. That has benefited from being part of the single market. We are going to leave the European Union, and obviously we need to make sure we have a structure in place whereby the benefits we have had are carried forward as best as possible. The Prime Minister alluded to certain elements of the single market being beneficial to our sector and that we will try to see to what extent they can be preserved or continue to apply.

How likely is it? That is going to depend on the negotiations. As I said earlier, there are other issues at stake. Going back to the point Mr Streeting made, if, in the UK, immigration was decided to be more important than economics, the same might apply to the other side of the table.

Chair: I have a couple more colleagues wanting to come in.

Stephen Hammond: Do not worry. I have two more questions.

Chair: Yes, but just quickly.

Q511 **Stephen Hammond:** I am just keen to nail down this point, finally, on what the likelihood is of an agreement for the UK separately, if we are outside other regulatory structures, on setting up our own mutual conformity arrangements.

Mike Hawes: They would be reasonably good, if we could demonstrate, basically, that they were harmonised with the market you aimed to do the convergence with, presumably Europe.

Chair: What was your other question?

Q512 **Stephen Hammond:** What do you see as the opportunities for the UK, ex the EU, for influencing standards on UNECE?

Mike Hawes: Yes, the UK does have a seat at the table on UNECE and it will retain that seat at the table. It is an influential player, but it is clearly not as influential as the European Union, given the volume and scale of the industry and the market it represents.

Q513 **Kit Malthouse:** I want to return and explore the WTO argument a little more, given that seems to be the backstop everyone is relying on. Mr Williams, I was a little confused. You said that, if we were to revert to WTO rules, it would not be particularly optimal because they are not very good at dispute resolution. That is the framework in which you operate at the moment, however, isn't it?

Tom Williams: It does not work.



HOUSE OF COMMONS

Q514 **Kit Malthouse:** Nothing would change, however, from that point of view.

Tom Williams: No.

Q515 **Kit Malthouse:** With regard to your industry, the status quo would continue.

Tom Williams: Yes. The argument earlier was whether the WTO is a good model.

Q516 **Kit Malthouse:** Right, yes, but that is a separate question from our EU membership.

Tom Williams: Precisely, yes.

Q517 **Kit Malthouse:** You also referred to having a supply chain that went as far as Japan and China. Quite a lot of your supply chain must already operate under WTO rules, mustn't it?

Tom Williams: They are working under that 32-nation agreement.

Q518 **Kit Malthouse:** Right—so if we were to leave the EU and our deal were to be WTO rules, you would be largely unaffected.

Tom Williams: For the movement of components from those suppliers, that is correct. In terms of tariffs, it does not matter if I were buying a component from Germany, France or Spain. I am assuming the same tariff environment would exist. In that case, it is not a big challenge.

However, what is a challenge is if I then get an additional customs burden in terms of bureaucracy and paperwork. That would give me a challenge.

Q519 **Kit Malthouse:** You do not have that customs burden when you are importing something from Japan.

Tom Williams: Japan is not our biggest source. It is not a big volume. We have many more components moving within Europe than we have from Japan. To be clear, however, and to be fair in the discussion, we get a lot of components coming from America, where we do have to deal with some of those issues. I am not going to try to paint a picture that is saying the sky will fall; it is just another challenge.

Q520 **Kit Malthouse:** It is more paperwork.

Tom Williams: It is not just the paperwork. The question would be, in a just-in-time environment, whether it creates much more friction in the system. Does it make the system work much less efficiently?

Q521 **Kit Malthouse:** I understand that. If the UK were able to achieve a bilateral situation with a number of countries in your supply chain that was better than the EU currently has, would it be likely that you might shift production into the UK or a greater part of the company into the UK?



HOUSE OF COMMONS

Tom Williams: No, I cannot really see that would be a big, deciding factor. It would depend on the extent of what you are saying. Clearly, we would need to see the information. Today, however, it would be difficult for me to imagine a situation like that.

Q522 **Kit Malthouse:** It would be difficult, but not impossible. On the EASA membership, your company is headquartered in the Netherlands. Is that right?

Tom Williams: Yes, it is registered there.

Kit Malthouse: That would be the point of your membership in the Netherlands.

Tom Williams: Yes.

Kit Malthouse: Whether we are in EASA or not, as a company you would be governed by EASA by dint of your—

Tom Williams: Yes, my point earlier was to say I speak, in that part of the discussion, on behalf of the rest of the companies in the UK. For big companies like Rolls-Royce, registered in the UK, it would be very important.

Q523 **Kit Malthouse:** When you or Rolls-Royce or whoever sell aircrafts or parts or whatever to, for instance, Air Canada, who is doing the certification there?

Tom Williams: In that situation, they would do it under EASA certification, and it would continue in the future.

Q524 **Kit Malthouse:** Right, so Canada accepts EASA.

Tom Williams: Yes, because it has equivalents. The concern I was suggesting is that you would still have to work under one of those regulatory regimes. To Mr Hammond's question, it would not make sense to re-establish a UK regulatory regime because it would take too long. If you wanted an example of that, you could look at China today, which is going through what is called a BASA arrangement with EASA and the FAA.

That is not a practical solution, but the point I was trying to make is that a significant company like Rolls-Royce would not be able to have a strong voice when talking about future legislation. That is important. In the end, they would comply probably through EASA, because you either comply with EASA or the FAA.

Q525 **Kit Malthouse:** That is going to be the situation anyway, isn't it, once we are outside the EU? The EU will do what it wants to do, and if we want to sell aircraft into them we will have to comply with their regulations, the same as we have to do with the FAA.

Tom Williams: Yes, it is exactly the same as with the FAA. At the same time, however, there is equivalency between the FAA and EASA today.



HOUSE OF COMMONS

There is dual recognition of standards. The point I was trying to make was not about setting up new standards; it was about having a voice when those standards are being created.

Q526 **Kit Malthouse:** Right, yes, which you do not feel you have with the FAA, for instance.

Tom Williams: No, obviously not.

Q527 **Kit Malthouse:** You cast aspersions upon the FAA's motivations, but it sounds to me—if we are moving towards global equivalence between the three, EASA, the FAA and the Chinese BASA—like we might get to a situation in the future when it would be in our interest for there to be a global standard for aviation.

Tom Williams: Probably not in my lifetime, no. I am 64.

Q528 **Kit Malthouse:** Right, okay—within a reasonable timeframe, then.

Tom Williams: It depends on what you class as reasonable.

Q529 **Kit Malthouse:** I have one final question. I just want to ask Mr Hawes something. Obviously, you also had some negative views about WTO rules, but my understanding was that the great triumph of British car manufacturing over the last few years has been the resurgence of JLR, whose primary export market is China. China is their biggest export market, where you sell cars under WTO rules, obviously. There is a huge flow of components and parts to and from China. Indeed, all the rubber presumably comes in under WTO rules; we do not manufacture any rubber in the EU. I do not quite understand, given that, why you think the WTO rules will be such a negative.

Mike Hawes: Again, you can look at individual companies and some will be more or less affected under WTO.

Q530 **Kit Malthouse:** It is possible to prosper under WTO rules, however.

Mike Hawes: It would be disadvantageous, compared with what we currently have. For some companies, you would question the viability of their UK operations.

Chair: I might come back to that point right at the finish, depending on how long John Mann takes, but there is one question he wants to ask.

Q531 **John Mann:** I shall be brief. This has been an excellent session. I only have one question, because there was a variation in the answers when it came to immigration and labour. You, Mr Carter, gave something of a different answer from the others.

I should, Chairman, rightly declare an interest, because—I did write to your predecessor—in 1989 your company gave me a job and then withdrew it because I was on the Economic League blacklist. In the intervening period, it has never explained why it did so.

Richard Carter: I cannot comment on that.



HOUSE OF COMMONS

John Mann: That is a declaration of interest, Chairman, for targeting Mr Carter with my—

Chair: We are always grateful when Members give us their personal experiences, but what we really want is the question, John.

Q532 **John Mann:** The declaration of interest is part of the parliamentary record and important.

The question, however, is this. You used your Bradford site as an example of why you needed to get a wider array of labour from the European Union. I presume that is your Cleckheaton Road site in Bradford. In 2009, your company, having acquired it, made 170 people redundant. In 2013, you made another 130 people redundant on a three-year redundancy programme that ended last year. You have got rid of 400 people, which is a significant part of the workforce.

I put it to you that that is an example of one of the weaknesses of having this free flow of labour. You can cut corners on skills, because in Bradford you have a potential labour force of 3 million people, and some companies are not investing in their workforce and have cut corners, and that is not necessarily in the long-term interests of the British economy. Perhaps you would like to comment on that.

Richard Carter: Certainly, I would like to comment. In 2016 we invested tens of millions of pounds in Bradford. The Bradford site has gone through a significant transformation. I would also like to state that all our plants are in competition globally, internally within the BASF group and also externally.

The situation we now have in Bradford is, after investing tens of millions of pounds in the site, it is now competitive and it now has a very bright future. Yes, we have gone through a transformation process that means we have reduced the workforce, but we have invested significantly and this is now one of our key plants for the technologies we have at that location.

Q533 **John Mann:** That I understand. My question, however, is about something else. You stated you needed semi-skilled and unskilled labour from the European Union to be competitive. I put it to you that, actually, you do not. There may be specific high-value skills needs you have, and Mr Hawes and Mr Williams identified some; they both stated engineers, for example. But when it comes to lower skilled jobs there, you do not have a need that cannot be met from the local labour force if you are employing people, keeping them and upskilling them.

Richard Carter: The example I gave of EU migrant workers playing a key role was not Bradford. We have other sites where we are heavily dependent on EU migrant labour. At Bradford, that is not the case. The people we brought into Bradford for our significant investment were engineers to complete the investment and put the technology online.



HOUSE OF COMMONS

Chair: Thank you all very much indeed for coming to give evidence. We are moving into a phase of the day when we will be competing with the Chamber and the statement on Article 50. Many colleagues will want to take their seats. You have given us some excellent evidence and we will be looking at it carefully, and you have also agreed to send some further written material to us in support of it.