

Treasury Committee

Oral evidence: The UK's economic relationship with the European Union, HC 473

Wednesday 15 November 2017

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Members present: Nicky Morgan (Chair); Rushanara Ali; Stewart Hosie; Mr Alister Jack; Catherine McKinnell; Kit Malthouse; Wes Streeting.

Questions 175 - 295

Witnesses

[I:](#) Ian Howells, Senior Vice President, Honda Motor Europe, and Allie Renison, Head of Europe and Trade Policy, Institute of Directors.

[II:](#) Martin McTague, Policy Director, Federation of Small Businesses, Nana Evans, Fashion Designer and Sole Trader, Neil Warwick, Partner, Square One Chambers, and Will Butler-Adams, Managing Director, Brompton Bicycle Ltd.

Examination of witnesses

Witnesses: Ian Howells and Allie Renison.

Q175 **Chair:** Good morning. Thank you both very much indeed for being here for the first of our two panels this morning, looking at larger businesses, to start off with. You are not just broadcasting to this room; you are online as well, so perhaps, for the record, you could introduce yourselves.

Allie Renison: I am Allie Renison, Head of Europe and Trade Policy at the Institute of Directors.

Ian Howells: I am Ian Howells, Senior Vice President, Honda Motor Europe.

Q176 **Chair:** We had a session yesterday where we almost avoided the word “Brexit”, but I do not think we are going to be so successful today. I wanted to start by looking at the implications of no deal or an orderly or disorderly Brexit, as it has been called. Both the Chancellor, in giving evidence to this Committee, and David Davis, in giving evidence to the ExEU Select Committee, have said that leaving the EU with absolutely no deal in place is extremely unlikely, in part because the consequences are so unpalatable. I wondered if you shared their confidence.

Allie Renison: A lot of that stems from understanding what no deal means. We do not have many instances of countries exiting trade agreements without any replacements in lieu of them. The question revolves around: how orderly is the transition? Do you get a transition at all? Secondly, while it is not the IoD’s preference whatsoever, the scale of the impact would depend on what no deal means. You could have a situation where, I suppose, some elements of trade facilitation are maintained, but that is of no help whatsoever if you do not have policy agreement. It has been said many times that the WTO rules are a patchwork for a lot of areas where you rely on preferential regulatory agreements. The big question from our point of view—and we have a very active branch in Northern Ireland—is: what are the implications there? It will be pretty disastrous for the Irish border if no agreement is reached on market access.

Ian Howells: From our point of view, as Allie has said, the difficulty is knowing what no deal looks like. Our concerns would be primarily around the customs side of things, in that, as a manufacturing operation, we are very reliant on the flow of product to and from Europe. From that perspective, if there is interruption in that flow caused by uncertainty over duty, customs or whatever it may be, it will impact us from a manufacturing perspective.

Q177 **Chair:** The economist Gerard Lyons has argued that “businesses trade across borders not because politicians strike trade deals but because it makes commercial sense”. There is an argument that many other



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countries are able to transact and trade cross-border with the EU without a free trade agreement. Ms Renison, how would IoD members—I suppose you are speaking on behalf of IoD members in particular this morning—find it in the event of no-deal scenario, if the UK has no agreement in place with the EU? What views have your members put forward to the IoD?

Allie Renison: We know, from survey data, that it is the least preferred option: around 15% compared with a much greater majority who are split along the single market membership/EFTA lines. One of the issues around what happens in a no-deal scenario is knowing—could you repeat the question? I am sorry.

Q178 **Chair:** It is about the view from one of the economists, Gerard Lyons.

Allie Renison: Yes, sorry. You have that comparative element. There are lots of countries that trade without a formal trade deal; however, there are a range of different technical agreements. The difficulty in making that comparison is that those countries have always traded with the EU on those terms. There is no disruptive element in terms of moving back to something. We do not even know whether we would have access to those technical agreements.

I can give you one example: the US FDA and the European Medicines Agency have recently agreed a mutual recognition agreement on good manufacturing practices for the pharmaceuticals industry. It is not clear how that is going to be transitioned: is it going to be maintained between the MHRA here and the FDA? In the event of no deal, it is very unlikely that you could guarantee that you would continue to have access to that mutual recognition agreement. There are a whole host of technical agreements that I would not expect that we would have access to in the event of no agreement.

Q179 **Chair:** Mr Howells, we have figures here about the amount of parts. Your Swindon plant sources 40% of its parts from suppliers in the EU 27, receiving shipment of 2 million car parts from 350 lorries every day, and exports 60,000 vehicles per year to the EU 27, which is about 40% of total output. Is that still up to date?

Ian Howells: Those are still broadly the same numbers, yes.

Q180 **Chair:** If there were to be, on 29 March 2019, no free trade agreement or transition agreement struck between the UK and the EU, what would that mean for Honda?

Ian Howells: There are a few things that flow into that. We are already an exporter to third countries, as you might call them, in any case, and we are also an importer as far as that goes. As a company, we are very aware of the process required for trading globally, not just within the EU. I mentioned a moment ago the customs flow in particular. Because we run a just-in-time process at our factories, which means we keep very few parts and components on our lineside, we are impacted very quickly



by a stoppage at the docks or whatever it may be. That is on the one side.

On the other, we have an issue over what is called type approval from our perspective. Type approval means that our product can go safely into Europe without restriction. A hard Brexit—again, depending on the definition of that—probably means that the product that we produce on 30 March, even though it is identical to that produced on the 29th, would not be allowed into the European marketplace.

Q181 Chair: I wanted to move on to that because, Ms Renison, you talked about technical agreements and one particular European agency. Mr Howells, you have now talked about the Vehicle Certification Agency. Perhaps you could expand on what you have just been talking about with these type approvals: how important is it for Honda, in terms of the success of your business, to have this approval from the Vehicle Certification Agency?

Ian Howells: We certify a lot of our products. Over time, we have used the UK authority quite a bit, not just for our automotive vehicles but for some of our other products that we supply into Europe. It has a very important function for us. In terms of automotive, if you do not have type approval, you cannot sell; it is as simple as that. Structurally, it is a very important thing for us to have.

Where we originate that type approval can vary. It does not have to be the UK; we can originate in other European countries. Of course, we have chosen the UK—we have a manufacturing plant here—and, therefore, we have a very close and longstanding relationship with the VCA, which makes it easier for us to transact at a type-approval level.

Allie Renison: It will be different for not only different sectors but different businesses. You have self-certification for some aspects of conformity assessment; not everything has to go through a notified body. But there are a lot of products, particularly when there is a hazard risk—for example, toys—where a notified body is required to give that verified conformity assessment, so it is very different by product.

Q182 Chair: When people talk about barriers to trade and non-tariff barriers, would you understand that to mean things like the approvals and certifications that you have both just been talking about? Ms Renison, perhaps you could expand on some other sectors, in terms of the work that you have done with IoD members, that equally need some sort of certification or approval from other agencies.

Allie Renison: One of the most obvious examples of that is in the chemicals sector. Very often, this becomes an issue in very heavily regulated and heavily traded sectors. Most people know about REACH—Registration, Evaluation, Authorisation and Restriction of Chemicals. We know that we are not necessarily going to be formally part of REACH—that has been confirmed by the Government—and we need to set up our



own database. Having said that, there is a question mark as to whether we will still have any participation in the ECHA, which is our effective regulator for marketing authorisation.

That is somewhat similar for pharmaceuticals, but not to the same extent, because there are some functions that are taken over by the MHRA here, whereas, for chemicals, so much of that is done through our European counterparts. That becomes a question about whether the UK Government have made up their mind about whether they still want to have, in terms of objectives, any participation in that agency, or whether they are planning on setting up their own. In that case, we find a lot of companies in that sector asking us, "Are we going to have to do two different registrations?" That is a costly exercise.

Q183 Chair: I am interested in your views on cross-border contracts. One of the great advantages we have here is English law, but concern has been raised with us about the status of cross-border contracts, particularly around derivatives and insurance, which may or may not be relevant, particularly to Honda's business. I just wonder, from both perspectives, what concerns IoD members have put to you about the continuation of cross-border contracts and what they are looking for from the Government in terms of certainty around that.

Allie Renison: The uncertainty element is there because there is an added benefit, in that a lot of cross-border contracts will have an English law provision. The question mark is around mutually recognised enforcement for civil and judicial proceedings, which is on the withdrawal agenda list for the UK and the EU at the moment. That is where the question mark comes in: "Can I rely on the same rights of enforcement if it is not done through the ECJ as the ultimate arbiter of appeal? What is the cross-border dispute resolution mechanism that replaces that?"

Q184 Chair: Would you agree, Mr Howells, from a commercial point of view?

Ian Howells: I would agree entirely. From our point of view, we have a legal structure in Europe that is particularly important for us, because we operate a branch structure, centred on the UK limited company. This particular element is a very important one for us in terms of maintaining that structure into the future.

Q185 Wes Streeting: Good morning. I am going to focus on one of the immediate issues ahead of the European Council in December, which is around transition. In the Florence speech back in September, the Prime Minister set out fairly clearly what the Government hope to achieve, which is a time-limited period of up to two years after exit date in 2019, where access to one another's markets should continue on current terms. The objective is to retain the same rules of trade, so that businesses and people in the UK and the EU have to adjust only once to whatever the new ongoing relationship is. Mr Howells, assuming it can be negotiated, does that status quo interim period, transition period or implementation period—we are talking about the same thing—meet your requirements?



Ian Howells: We would very much welcome that. We have estimated that, from a systems and process point of view, it takes about 18 months or so for new systems to be put into place. From our perspective, it is really how prepared the likes of HMRC are going to be at that point in time: will we know the rules that are going to be implemented? From our perspective, we can take whatever HMRC might put into place for customs, for example, but then we have an internal processing time in which we need to change our own systems. It is not just our systems, but those of our supply chain, which is very extensive and includes a lot of very small and medium-sized entities.

It is how that implementation is looking from the point of view of where the starting point is. If the starting point is, "These are the rules; we know what we are going forward on; therefore, it is an implementation period", that would be very different to a transition period for us.

Q186 **Wes Streeting:** Allie Renison, in terms of your members, is business broadly approving of that kind of status quo transition?

Allie Renison: You may have heard about the joint letter that was undertaken by the five business representative organisations, where we have called for a standstill for the purposes of cross-border trade. The economic relationship could change, in terms of what it says on the tin, as long as the outcome is that cross-border trade arrangements do not substantively change. That is now the third most important priority, grouped quite closely to continued avoidance of tariffs. The question around that, which we very often get asked by businesses, is: when is it starting? What I mean by that is, as was just referred to, they do not use an A4 sheet of paper to plan. They have to know what the rules are.

This is particularly relevant to when we start talking about what the implementation period is for. Is it for extra negotiating time? It is quite difficult because we are a cross-sector organisation, but across all sectors the average is about 12 to 18 months, in terms of the minimum amount of time they would need to know in advance of changes to trade arrangements to make those adjustments. At what point are negotiations closing, so you have a text in place and then the adjustment period begins? There is a big question mark around when—not just an outline or a framework—new rules of origin will be in a text for us to use and adjust to going forward.

Q187 **Wes Streeting:** It is interesting that you both picked up on that same theme, which takes me neatly on to the next set of questions. David Davis has been pretty clear that, whether or not we get to this point, in his view, it would be undesirable for us to be negotiating a future trading relationship during the transition phase—and he said this explicitly—"because our negotiating position during a transition phase would not be very strong". There is also the very practical issue that both of you have raised, which is that, as well as needing certainty for the foreseeable future in terms of decisions that businesses may be taking, you need that period of time to adjust and put in place the rules, frameworks and nuts-



and-bolts systems and processes, to be ready for whatever the future trade relationship involves.

Therefore, thinking about the work you do and your firm does, Mr Howells, assuming the Government negotiate a comprehensive trade agreement, how much time would be needed to adapt to such an arrangement, once the details become clear? I appreciate that is like asking, "How long is a piece of string?" depending on what is negotiated. To take a slightly more predictable, if not desirable, scenario, assuming the trade negotiations fail and we are in the position of falling back on WTO arrangements, how much time would you need to adapt to that kind of scenario?

Ian Howells: As I mentioned earlier, we are in a position where we trade with third countries already, so we have the processes that can take care of that. The concern from our side is how ready our trading partners in the EU would be, because they would also be changing their processes and systems at the borders. How do we meet that in those terms? I mentioned earlier we need around 18 months, generally speaking, to modify the systems, and we have had experience of that very recently with what is called the UCC, which the EU is putting into place. That has taken us roughly that sort of time. A very extensive piece of work is required. As I mentioned, it is really then about how that flows down into our supply chain.

The question is, "How long is a piece of string?" I look at what HMRC has said in terms of the systems that it is operating. It has, in the past, indicated that it felt five years was the time that it would take it to fully implement new processes and systems. Quite clearly, if that is the case, the dynamics change very significantly from what I just described. In overall terms, I would say probably 18 months, assuming we know the rules, but depending on how quickly the other side of the trade barrier moves as well.

Allie Renison: It is worth stressing that it is not just a text that businesses will be looking at; they will be relying on instructions from HMRC, so they have to know as well from HMRC and from Port Health, for example, what the new requirements are going to be. One hopes that they will happen in step and in sync, at the same time, so that, when the agreement is concluded, the new systems will be ready to go from HMRC. From what I understand from listening to the director general of HMRC, the five-year reference was more around the new customs partnership, in terms of the option whereby we would be collecting EU tariffs at the border and then having this tracking system that differentiates between goods that stop in the UK and those that go on to the EU. It would be less than that for the streamlined arrangement, but that involves the greater potential for customs control.

Q188 **Wes Streeting:** That brings me neatly to the final question I wanted to ask you, Allie. Given IoD's perspective across a range of sectors and businesses, what is your message to the Government on the European



Council? What is it that you think businesses need to see or hear from the European Council to give them the certainty they need about whether to activate particular contingency plans or to make different decisions? Secondly, thinking about the breadth of sectors that IoD has a view across, which sectors do you think would be in most need of time to adapt to whatever the future trading relationship is, bearing in mind it may take longer than the Government hope to negotiate that?

Allie Renison: On the first point, I would add that the message is just as much to the EU as it is to the UK at this point.

Wes Streeting: Absolutely, yes.

Allie Renison: We know that one of the main stumbling blocks is intensely political, so it is not necessarily appropriate for a business organisation to try to move the Government on the financial settlement. Having said that, some of what the EU is looking at discussing has reached the limits of what phase one can really cover, not least with the Irish border at the moment.

Particularly on citizens' rights, even though we know that we are pretty close to being there—leaving aside the enforcement question, which relates to phase two discussions around what replaces the ECJ and governance arrangements—the Government need to really commit to compromise and flexibility. There are still some niggling areas around the export of child benefits, for example, where we think the Government would benefit from being a little more flexible and open to compromise. We would also extend that to the EU. It is an over-ask for the EU to expect that the ECJ should have direct jurisdiction over EU citizens for the duration of their lifespan.

Q189 **Rushanara Ali:** Good morning. Ms Rennie, a great deal of weight has been placed on the December European Council. If this results in no progress towards phase two of the Article 50 talks and the agreement of transition arrangements, how in your view will firms react to it and what are the differences in terms of the different sectors?

Allie Renison: The question could be divided up. To a certain extent, they are not necessarily hoping or expecting transition to be wrapped up by December. However, if we have to wait until March for phase two to be discussed, you will see people putting in place their contingency plans, because the financial year ends shortly thereafter. We have found that a good majority of businesses are still holding off both implementing and drawing them up, and you will see that accelerate in the first quarter.

Q190 **Rushanara Ali:** March is the key date, not December.

Allie Renison: March is the key date, but what I mean by that is, if we do not see progress to phase two at the December summit, you will see the acceleration of that.

Rushanara Ali: From December.



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Allie Renison: It depends on moving on to phase two. There was some putative discussion about separating out transition from phase two issues, but the EU member states were not in favour of that, so they are now being grouped together. If there is not deemed to be sufficient progress to move on to phase two in December, barring an exception made by the EU member states, which I would not see them minded to make at this point, you would see people starting to put in place contingency plans. If they know that transition is not being negotiated by the UK, and not just discussed internally, by March, people will not wait at that point.

Q191 **Rushanara Ali:** You mentioned chemicals earlier. Which sectors have the least time, and which have more time and flexibility in terms of preparation?

Allie Renison: It is interesting. We have some survey data out today looking at planning and preparation generally. Interestingly, financial services feel more able to plan at this point and have taken more steps than manufacturing. For manufacturing, you are talking about disruption to supply chains, although not always, and the movement of production and operations outside of the UK, so they need a bit longer to plan. It is a much more substantial operation to move that kind of physical infrastructure outside of the UK. That may be why they have not made the moves in the same way. It is sometimes a bit easier for services-based firms to look at planning.

Q192 **Rushanara Ali:** I have one final question for you. When, in your view, is the point of no return after which large firms make irreversible decisions about how and where they do business?

Allie Renison: I would not want to put a fixed term on it for all sectors and large firms, but we are looking at before the end of the financial year. That is when people will be making substantive plans. There may be SMEs that have to shift production but hold out even longer, to see if it is absolutely necessary. While we agree that, conceptually, a transition agreement and implementation period is a diminishing asset, it is still an asset that needs to be agreed. Our survey data found that half of companies just do not feel able to plan right now, so they may still be holding out for quite some time.

Q193 **Rushanara Ali:** Thank you. Mr Howells, how much importance do you attach to the December Council? Would you have a similar view?

Ian Howells: We would like to see certainty very quickly. From our point of view, once we have that and we understand the direction we are moving in, it makes our planning a whole lot easier. It then depends on the detail that subsequently comes through. From our point of view, the things that we have to rethink have been mentioned. Customs is probably the key one, particularly around how we manage our supply chain flow and how our manufacturing operations work from a just-in-time point of view.



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The contingency we are looking at would be that we have to increase the amount of inventory that we hold on the UK mainland, as opposed to importing it on a more regular basis. That impacts our productivity and efficiency but, nevertheless, it is something that we can plan ahead. In terms of our planning horizon around that, that is really down to how quickly we could get warehousing and how quickly we could up the supply chain rate to supply that additional amount of inventory. That is just on that one side, from a practical point of view.

Type approval is a little more time-driven from the perspective that it takes something around nine to 12 months to get into place. You would probably be looking at very similar sorts of dates in terms of that March date. If we need to get out and get a new type approval, that is the sort of timing we would be talking about.

Q194 Rushanara Ali: What do you specifically need to see in December, and then by March, in order to avoid triggering your contingency plan?

Ian Howells: We would need to see both sides agreeing at a point to say, "We are clear on transition". That is probably the key thing in terms of the customs side of things. If we have that transition period, we know it might not be the customs union, but a customs union that is very close to what we have today in terms of the way it works.

Q195 Rushanara Ali: Does that need to be a worked-up deal or a political commitment?

Ian Howells: If we had the assurances at that point that we had a position very close to that today, that would give us the necessary assurance, but it would have to come from both sides.

Q196 Rushanara Ali: You need a political commitment at the very least by December, and a worked-up deal on both sides by March.

Ian Howells: We would like to get the sense of direction by December, and be moving towards something that gives us the assurance of the type of deal that we are going to be dealing with. If it was "a customs union", if I can call it that, that would take probably a significant amount of time to work up. If it modified "the customs union", perhaps we are looking at something much shorter, in terms of timeline.

Q197 Rushanara Ali: On a potential no deal and no transition, what sort of contingency planning has your company done in the event of that happening?

Ian Howells: It is very pragmatic. I hate to repeat it again, but it comes back to the customs side of things in particular, because we see that there is a very definite cliff edge, if I could use that phrase, in that respect. On the 29th, you have one set of rules; on the 30th, you have another set of rules and you are not entirely sure how they are going to work. That is the difficulty, not just for us, but for the authorities that



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have to deal with it. That is our most immediate need. That is the one that really comes out there.

When we get on to regulatory divergence and items such as tariffs, I guess the tail is a little longer in terms of that. While we would not welcome tariffs, in the short term we would have to manage our way through them, but that does not stop production or put us in the position whereby we have to slow the processes down or build extra infrastructure to address that. It is something that we would hope, over time, would be sorted out. The cliff edge is the most important thing for us.

Q198 Rushanara Ali: In that scenario, would you envisage moving jobs or activity out of Swindon or even out of the UK?

Ian Howells: As Allie has said, physically we have a huge plant in Swindon; 4,500 people work there. It is certainly not something that is easily done in a very short space of time.

Q199 Rushanara Ali: What about in the medium and long term?

Ian Howells: We are very much committed to our UK operations. We have been here over 30 years now in terms of manufacturing. We have the expertise and we have the resources here. We have a factory that produces a model for a global marketplace, not just a European one, so the dynamics are very different, as far as that goes.

Allie Renison: One of the interesting things that came out of the survey data today is that, while relocation is the most well-known and well-recognised contingency plan in terms of discourse, not all contingency plans are relocation. One of the things that we found in terms of the numbers was that about 67% have either implemented or are drawing up contingency plans, but only 25% are either moving or looking at moving operations, so there is a big gulf of people who are looking at setting up shadow supply chains, sitting on cash flow or not holding on to as much stock. There are lots of different ways in which contingency plans can be drawn up.

Q200 Rushanara Ali: The CBI survey suggests that 60% are planning to trigger their contingency plans if a transition deal is not agreed by March. Does either of you want to comment on that?

Ian Howells: From our own supply chain point of view, it comes back to what degree of contingency we are talking about. It can be relatively small; for a larger company, it could certainly be quite a complex move. Industry by industry, it will change. For our supply chain, it could be that, administratively, they have to take on an additional person to take care of VAT or whatever it may be. From that perspective, it could be a relatively small change. Those statistics are helpful as guidance but, in terms of underlying physical movement and change, it is probably a very different dynamic.

Q201 Rushanara Ali: Do you have a sense of what percentage fall into the



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smaller adjustments versus more significant ones?

Allie Renison: Not at this stage. We have just done the latest round of survey data on that, and we are now trying to pull apart what different options are out there. It is so different by sector and by business that, even if you listed a multiple-choice list, there would be so many that were not included in it, because it is so unique to each individual business. The prospect of having no agreement and having not much of a transition to no agreement would accelerate the share of businesses that are looking at physical relocation.

Q202 **Rushanara Ali:** Overall, from the IoD's work, given all the preparation and consultation you are doing with businesses, what is your assessment of how prepared those businesses are for a no-deal scenario?

Allie Renison: We have asked about familiarity with WTO rules, with the caveat that WTO rules do not exist for a lot of the non-tariff barriers that would be potentially erected in the event of no agreement. We found that it is about 60/40 that understand the impact of WTO rules on their business.

Rushanara Ali: Sorry, 60%—

Allie Renison: There are 60% who do not understand and 40% who do.

Q203 **Rushanara Ali:** What about small versus large firms? Is there a big discrepancy between the two?

Allie Renison: We would have to do further segmentation analysis on that. In the most recent data looking at firms' ability to plan, we have found that, generally speaking, leaving aside what they are planning for, the smaller they go, the less able they feel to plan.

Q204 **Chair:** Honda has explicitly called for the Government to reverse the decision to leave the customs union. Is that still Honda's ideal position, if that could be revisited?

Ian Howells: That would be our ideal situation, but it is already clear that that is not something that will go forward. Therefore, in an ideal situation, we would be looking to have a customs union and a regulatory framework around it that is pretty close to what we have today.

Q205 **Stewart Hosie:** Allie, you just said that, in terms of contingency planning, only 25% of those surveyed indicated they would move all or part of their business, and the rest would have other contingency measures. Even if these figures are exaggerated by 100%, it would still suggest that something in the order of 10% to 12% of the largest businesses were planning to move part or all of their operations. While that is not the full contingency plan in the worst-case scenario, it would be one heck of a dump to the economy, if that was correct.

Allie Renison: Particularly if it happened in one fell swoop. The question around this—and it really depends by sector; the financial sector is very different—is: is it a staggered move, in terms of assessing what the



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impact to the economy is? It would depend on whether we are talking about businesses setting up brand new branches for the first time or shifting some back-office staff.

Again, it is very different by sector but I know that, for the financial services sector, there have been some very acute warnings, for example from the Irish Central Bank Governor about letterbox companies being set up and that there has to be a substantive presence. One of the things that companies are very mindful of is looking at whether there are any changes to the requirements to set up for the first time in these locations.

Q206 Stewart Hosie: That is going to be helpful in the future when we come to look at that. One of DExEU's priorities, they said, was "continuous engagement with stakeholders to provide as much certainty as possible throughout the negotiations". Given that the IoD and the other large-membership business organisations should be key stakeholders, how successful do you believe the Government have been in providing that certainty over this period?

Allie Renison: With the caveat that we know the Government cannot provide certainty in the negotiation in absolute terms, there has definitely been an uptick since the election in terms of direct engagement. We engage with officials from many of the other departments quite regularly. There has been an uptick in direct ministerial engagement. There is nothing formal set up at this stage on a frequently ongoing basis. The hope is that, as we move into phase two, where those substantive trade elements are being discussed, there is a view towards formalising that structure a bit more.

Q207 Stewart Hosie: Given that the warnings have been very clear that March next year is pretty much the cut-off before contingency plans need to be fully developed—or, indeed, implemented in some cases—I would imagine that people like the IoD would expect the invitations to come through the letterbox very quickly for the kind of engagement that is needed to take place in terms of the various trade negotiations that follow in the new year.

Allie Renison: One would hope that. It is interesting to look at different models in other countries. That is not saying that we want to follow, for example, the US model, which has an extremely formalised structure that can sometimes give rise to vested interests having a hold over negotiations. Having said that, there are very often questions from third countries about what our engagement is at this stage. We understand that we are in the phase one section of the negotiations right now. Even though we make plenty of representations to the Home Office and the Department for Exiting the EU on the citizens' rights dossier, we can understand why that is not really in place in such a formalised structure yet. One would hope that, as we move into phase two, that accelerates and ramps up. They are negotiations and they are very sensitive, so we have that understanding.



Q208 Stewart Hosie: When will the IoD start jumping up and down, saying, “We have run out of time. We need to start negotiating now. Indeed, we needed to start negotiating a week ago. We needed to have engagement a month ago”? When do we get to the point where people like the IoD and others—individual businesses and other trade bodies—say, “That is it. They are not speaking. They are not communicating properly”? What is the timeline on that?

Allie Renison: We will wait to see what happens when phase two begins, to be perfectly honest. Again—and I hate to be repetitive—we understand why, not being in that phase, there is a legitimate reason not to substantively engage beyond some discussion around the future partnership papers. It is: “Let us see what happens once sufficient progress has been made”.

Q209 Stewart Hosie: Mr Howells, in June you said, while you had had numerous meetings with the Government about Brexit, “Whether they are listening or not I really don’t know”. Do you have any more confidence now that the right people in Government are listening and, more accurately, hearing what it is you are saying?

Ian Howells: Yes. We have noticed a very much more engaged Government and Departments than what we saw when I made that quote back in June. We have been very involved as a company with supporting the efforts of the Departments at quite a low level within the respective organisations, at the Civil Service level and the like, as well as contributing at a policy level. We feel much more confident that that listening is now going on and there is a response coming out of that.

Q210 Stewart Hosie: You may not know this but let me ask anyway: are you aware of businesses of your size in other sectors that are engaged in the same way, and do you know if they are getting the same kind of response that you are?

Ian Howells: I do not know the direct answer to that. I assume that there is some sort of engagement, yes.

Q211 Stewart Hosie: That is helpful. In October 2016, when this all kicked off, Nissan announced it would build the next Qashqai and X-Trail models in Sunderland, following what its chief executive said was “the support and assurances of the UK Government”. Toyota also received assurances, the details of which are contained in confidential letters from the Department for Business, Energy and Industrial Strategy. Has Honda received any assurances from the Government in the form of similar letters or private, verbal assurances?

Ian Howells: I would point out, just to give context to that, that our model-renewal cycle is slightly different from Toyota and Nissan. I can say categorically that, no, we have not.

Q212 Stewart Hosie: Notwithstanding the difference in the cycle—and I understand that—are you disappointed that Toyota and Nissan appeared



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to receive preferential treatment? Do you think, if you were on the brink of announcing a new design and build, you would have received something similar?

Ian Howells: Honda traditionally does not seek government support of that sort, if indeed there was any support. From our perspective, we expect, generally speaking, that there is a fair playing field, and that is what we would expect of any Government. From our perspective, that is our starting point.

- Q213 **Stewart Hosie:** That is helpful. In terms of the broad assurances that appear to have been given, the Minister said, in relation to Nissan, that it would be able to trade with the EU “free and unencumbered by impediments”. Given that we intend to leave the single market and the customs union, notwithstanding your hope that we have something broadly similar, how credible is it that any business of that scale—or of any scale—can be given an assurance that they can effectively continue to trade “free and unencumbered by impediments” when there may be new tariffs or other regulatory barriers put in place?

Ian Howells: I cannot speak for Toyota’s position. It has considered very carefully what has been said by the Government. Likewise, I cannot speak for BEIS, going the other way. From our perspective, as we have heard during the session this morning, there are things that are very important to us as a company around frictionless trade as much as possible. That makes us a much more efficient and productive company. I cannot give an opinion on the position of Toyota, Nissan or BEIS in that respect.

- Q214 **Stewart Hosie:** I understand that. Allie, what was the reaction from other business sectors to the apparent assurances offered to parts of the car industry?

Allie Renison: We have not had any inquiries about it, if that is what you mean. It has not come up in many discussions. At this stage, business is much more interested in what the plans are for the new relationship going forward.

- Q215 **Stewart Hosie:** On Honda in particular, the decisions on where to produce future models, and therefore where to make the investment, will be made in Tokyo. Can you describe how future investment decisions will be taken? When will those decisions take place and what factors will enter into the choice of the locations for the investment?

Ian Howells: The assessment is really looking at the quality of the factory, the quality of the product that it is able to produce, the cost at which it is able to produce and the efficiency of the plant. If we are looking at it, they are probably the three primary things that will be influential in how that selection goes forward. If we are looking specifically at a model renewal of the likes of the Civic, which we produce at Swindon at the moment, our factory in Swindon has many years of experience in building this particular type of model, which is a five-door



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vehicle. From that point of view, it has the expertise and understanding of how to build that model, so it has an advantage in that respect.

Q216 **Stewart Hosie:** It is also Honda's only car-manufacturing facility in the EU, so would that make the site more or less secure, given what Brexit may bring?

Ian Howells: We do not know what Brexit may bring in terms of that. As we have described, if there is an agreement and suchlike, it is very much business as usual. From that perspective, we are slightly different, in that we have a big global footprint from that factory: 50% of what we produce goes to the rest of the world; 15% stays in the UK; and the balance is into Europe. Really, we need to look at it in a global sense, not just in terms of the impact of any Brexit.

Q217 **Stewart Hosie:** You are already operating as a third country in that sense for half of your exports, in essence.

Ian Howells: That is correct, and we have experience in that area, as I explained earlier.

Q218 **Stewart Hosie:** My final question relates to what the economic impact more generally would be. Would a depreciation of sterling, for example, help compensate for some of the additional costs that one might see from the additional barriers imposed by the wrong sort of Brexit?

Ian Howells: In essence, we had some experience of that when we had that depreciation last year. The short-term and medium-term impact is that it tends to put our costs up. As was mentioned earlier, about 40% of what we buy comes through based in euro. There is another chunk that comes through in our currencies, so any depreciation of that sort will raise our costs in that term.

Q219 **Stewart Hosie:** That is fascinating. The depreciation has an adverse impact because you are importing parts and raw materials.

Ian Howells: That is correct.

Q220 **Stewart Hosie:** If these costs shot up further because of the additional regulatory or tariff barriers, that would not be clever for the business. I am using your business as an example of others.

Ian Howells: In the longer term, you are able to pass that cost through, because, of course, there is an advantage coming the other side in that depreciation. As we sell out of the factory, we get some appreciation of the currency coming the other way, or that depreciation causing an appreciation in that way. We tend to think that it balances out. I have to say it is a very complex jigsaw. There is no real right or wrong answer, or a very black-and-white answer, that I can give you. It depends how the currencies move relative to each other, and it also depends on the marketplaces we are able to sell into.



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The key thing for us, at the end of the day, is going to be whether the marketplace will take our product. We believe we have a very competitive product, built to a very high quality and at a very competitive price. If the market is convinced by that, it is going to take that model from us, and that is really what our goal has to be.

Allie Renison: Some interesting data came out today as part of the survey. We really wanted to try to tackle this idea of the impact of the pound weakening. We are finding historical trends, particularly of late, where you have very complicated and complex supply chains, people price their orders in different currencies and the way they are paid diverges. We found that the impact of the weakened pound shoots up import costs—and that is an immediate impact—quite quickly. How that is passed through in terms of a benefit to exports is over the longer term and much more complex. In asking all of our exporting members—and about 60% of our members export—whether there has been any impact to or increase in their exports as a result, we found that exports are up slightly. However, when we asked about whether that was down to the pound, the vast majority—about three quarters—said it had no impact.

We would expect that to be the case for the services sector anyway, so we wanted to see if that was the case for goods as well. There was a slight shift, but, by more than two to one, goods exporters said that they had seen no impact from the pound on their exports.

Stewart Hosie: That is helpful, thank you.

Q221 **Kit Malthouse:** Good morning. I want to ask you some questions about regulation but, before that, a couple of things on what you have said. Mr Howells, you indicated that it is perfectly possible to run a just-in-time process with a third-country supply chain. A lot of your components come in from outside the EU and you are running just in time on that basis. There was this huge story in the papers that we were going to end up with queues at Dover all the way back to Paris because your 350 trucks would not be able to get through, but you are running a fairly significant proportion of your component parts through a different system already, so this is just a process thing and you need a bit of time just to get that ready.

Ian Howells: Yes, that is a very fair description, in that it takes that time to transition it. That is the key.

Q222 **Kit Malthouse:** It is not an insurmountable problem, because you are doing it already.

Ian Howells: Correct, yes.

Q223 **Kit Malthouse:** On the type approval, presumably your vehicles have a significant number of type approvals from different markets. If 50% of your exports are going to third countries, they must all have different type approvals.



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Ian Howells: It will vary. We export a fair bit to North America, and that has a type approval. Europe has a type approval. At the moment, of course, we can use the same type approval in Europe and the UK, so that is 50% of our production covered by a single type approval. Through Brexit, you end up with 30% of your production having a different type approval.

Q224 **Kit Malthouse:** On the type approval with the EU, is there any requirement in the EU to have a look again because it is a different left-hand/right-hand drive?

Ian Howells: No, we have a single type approval, so it works on both models.

Q225 **Kit Malthouse:** Nevertheless, the car—whatever it is—will have 15 or 16 type approvals for different markets.

Ian Howells: It will depend on which markets you are going into.

Q226 **Kit Malthouse:** On the supply chain, is it likely that you might think about bringing some of your supply chain back to the UK?

Ian Howells: We have a policy of localisation wherever it is possible. The SMMT has certainly made it clear, from its point of view, that the ability to source in the UK is difficult at times, and there is a limit as to how far you can source in the UK currently. As a company, we look to localise sourcing wherever we can. We appreciate that we cannot always do that but we will, where we are able to.

Q227 **Kit Malthouse:** Would this provide an impetus for you to perhaps bring some of those components or look in your supply chain more locally for how you can generate the ability to produce these bits and pieces?

Ian Howells: At the end of the day, we need to realise that the supply chain is not necessarily exclusively Honda. That supply chain will probably be producing parts for other manufacturers as well. Therefore, they will look at that in the round as to whether or not it makes sense to rebase in the UK. If they are supplying Honda and another manufacturer, from that point of view, it may make economic sense for them to do that, because the key thing in the supply chain for a motor manufacturer is always going to be around volume. If you can achieve the volumes, it is usually going to make sense for you economically. If you cannot achieve the volumes, you have a very different perspective.

Q228 **Kit Malthouse:** No, I understand. Much of this conversation, particularly about the car industry, implies that the trade is all one way, whereas, in fact, it is the reverse. 86% of cars sold in this country are manufactured outside this country. We are a big consumer of German cars. Is it a third or 20% of all cars in this country that come from Germany? Are you aware of them making contingency arrangements, possibly, to shift activity here?



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Ian Howells: I have no indication of that. We also import completed units—not cars—from Europe. It tends to be bikes, lawnmowers, engines and the like. We are impacted both ways in terms of that, and we view ourselves very much as a European business in the way that our supply chain works around those particular types of product. At the end of the day, we are importing completed units and we are exporting completed units, so we have to get that sense of balance for ourselves as well.

Q229 **Kit Malthouse:** I guess one of the issues that I have is that this debate always takes place on the notion that this is a zero-sum game, but it is perfectly possible for your business in the UK to grow and for it to grow in the EU at the same time.

Ian Howells: To speak as our business, yes. It is the disruption that comes initially. If there are tariffs in place, our vehicles, from a cost point of view, are going to be more expensive than a local manufacturer would be facing. Nevertheless, there is no reason why that should not happen. If we are producing the right product for the customers, the customers are going to be there for us.

Q230 **Kit Malthouse:** Generally, when you ask most larger businesses whether it is possible for both to grow at the same time, they say yes. We had Allianz, the big German insurance company, come in, which said it was possibly going to shift stuff back to Europe. Nevertheless, its UK business would still grow significantly.

On that basis, I just wanted to probe you a little bit on the WTO. You said, Ms Renison, that 60% of the people you surveyed do not understand the WTO. They must, therefore, not be exporting outside of the EU to the US or large markets, where they would have to operate on WTO. We had a witness here last week who effectively indicated—and the rest of the Committee will gasp now—that WTO was broadly useless and that planes would fall out of the sky, drugs would no longer pass from the US to here and all sorts of stuff. Yet there are significant flows, particularly from the US market to the UK and the EU, and vice versa, on the basis of there being no agreement, purely a WTO arrangement. Why would we not, therefore, be able to trade just as freely as the United States does on the basis of our WTO membership?

Ian Howells: I can only answer in terms of Honda. At the moment, yes, we already price in that cost as we export to America. We price it in as we export to the rest of the world. From our point of view, there is a change point, and that change point would mean that we would suddenly go from zero tariff and, under WTO, cars would go to 10%. There is a change point, and it is how well the market is able to absorb that change and, from our own business point of view, how well we can absorb it.

Q231 **Kit Malthouse:** And where the exchange rate moves to compensate for differential value.

Ian Howells: The exchange rate can make some difference, as we were discussing earlier.



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Allie Renison: This need not be tantamount to saying that, by having disruption, it has a permanent effect of shifting operations for all these sectors outside of the UK, but the different starting point is the pinch point, in a sense. Understanding how to manage the disruption is very different from knowing what WTO rules look like for trade between the UK, the EU and another country, and that is where the uncertainty is about what that disruption is going to mean. It has been estimated that, for every extra day that goods sit in customs, it is equivalent to a 2% to 6% tariff. It is the uncertainty around knowing how much longer things might have the potential to be held up in goods sectors that the question mark around planning comes from, not so much the idea that they cannot trade on those terms.

Q232 **Kit Malthouse:** In particularly highly regulated markets, such as pharmaceuticals, for instance, it is perfectly possible to conduct trade on the basis of WTO. There might be a bit more of a process about it, but there are highly integrated markets that operate on that basis. The US exports twice as many pharmaceuticals to the EU as it does to the UK on the basis of no deal; it just gets them in.

Allie Renison: At the moment, the question that we get from businesses in the pharmaceuticals sector is primarily, "I have a marketing authorisation currently pending with the EMA". There are different structures for getting marketing authorisation to trade across the EU or into the EU. The EMA is but one, and it has two different tracks. Having said that, the big question from pharmaceutical companies now is around what happens to those currently pending authorisations. Will they come back to the MHRA and how much longer should I anticipate having that authorisation to be able to play in the European market?

Q233 **Kit Malthouse:** The next question is about the role of global regulation rather than local regulation. For car manufacturers, standards are set by a global body, effectively, so the regulatory or non-tariff barriers to you trading in Europe would be what?

Ian Howells: Those regulations only take you so far. In terms of the total type approval where we are talking about the whole vehicle, those would not necessarily apply in a very complete way. The whole vehicle type approval we require is to send out a vehicle as it is and to have the ability to sell that easily across marketplaces. As we were discussing earlier, it depends on which markets you are going into, but whole type approval is very important if you are looking at a single block in the nature of, say, the EU 27 as it will be.

Q234 **Kit Malthouse:** Do you think that us leaving the EU is an opportunity to throw some impetus behind more global regulation in some of these markets? On the basis of doing that, would you support us remaining members of some of the European regulatory bodies so that we can propel them to cut deals with Asia and the States on common regulatory standards and recognition?



Allie Renison: Yes and yes. Particularly on the first question, one of the big challenges that could potentially turn into an opportunity, if the EU and the US play ball, is how you square the circle of data flows. There are very different rules around that. Is the UK able to act as a bridge for a more globally driven process in that regard? Having said that, it is unlikely in data, because of the way that the EU and the US fundamentally diverge on the rules and regulations for that.

On the second point, we would absolutely support that where possible. Again, that is obviously not in our gift, but it would be helpful if the Government clarified whether they wished to still have any representation in the EMA or the ECHA, or whether they envisage all the competences that currently sit there around authorisation, licensing, valuation and so on being brought back here. Leaving aside the question whether it is a good idea in itself, that decision has to be made if we are going to start talking about MRAs between different regulatory bodies.

Q235 **Wes Streeting:** For the benefit of clarity, Allie, you said at the beginning in response to the Chair's questions that, in the event of a no-deal scenario, pan-EU deals will not work. Whereas at the moment we have agreements on type approval for toys, where they carry hazard risks, in the event that we leave with no deal and those pan-European agreements cease to operate, even something as simple as kids' toys could be held up in initial customs arrangements because we do not have an agreement about hazardous products.

Allie Renison: The point that I was making was that, in some areas, you need a notified body—for example for whole vehicle type approval—to make the conformity assessment. If you do not have that agreement in place, I would not say it stops it moving, but it significantly delays the time it takes to get things from A to B.

Q236 **Wes Streeting:** Something as simple as kids' toys could be held up if they are deemed to have a hazard risk.

Allie Renison: Yes, you would have to have testing on both sides of the channel.

Chair: Let us hope Father Christmas is listening.

Kit Malthouse: Is it the case that, currently, the majority of kids' toys imported into the UK come from outside the EU?

Chair: Let us ask the question to others. We will have to get a toy manufacturer in.

Q237 **Mr Jack:** Allie, what should the priority be for the UK trade negotiators? Should it be replicating the market access that is available under the existing EU free trade agreements or should it be negotiating new agreements?



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Allie Renison: Is this for DIT or DExEU? Which trade negotiations are we talking about here?

Mr Jack: The current trade negotiations.

Allie Renison: With the EU or the rest of the world?

Q238 **Mr Jack:** I am asking whether their priority should be to replicate the market arrangements that currently exist—that is, the 46 arrangements that the EU has. Should the existing EU free trade arrangements be their priority, or should they be looking at new arrangements?

Allie Renison: For continuity purposes, we are in a position to do the continuity agreements at the moment, which is what the Department for International Trade are predominantly leading on, with some input from the Department for Exiting the EU. When you start talking about third-country arrangements, when you speak to third countries, there are simple, fundamental questions about where the UK is going to end up that would inhibit some of those negotiations. For the purposes of practicality and continuity to minimise disruption, if you are negotiating a trade agreement you are not worried about disruption, whereas, if you are trying to replicate or convert them, you have that potential, so that is the priority.

We have asked IoD members to rank in priority order the EU trade negotiations, the continuity ones and the new ones. For more than four to one, it was the EU trade negotiations, the continuity ones and then third-country agreements.

Q239 **Mr Jack:** What would be the principal difficulties associated with replicating those EU trade deals?

Allie Renison: On a very specific point, rules of origin, because we are currently using the EU's rules of origin through those free trade agreements. If we are not party to those any more, we would need to know at that point, as that can complicate the continuity aspect of those trade agreements. That is one of the big issues. It is not insurmountable, but it requires a parallel, in-step synchronisation with the EU trade negotiations and we are not at the point, at this stage, of knowing where our rules-of-origin system will end up on an independent basis.

Q240 **Mr Jack:** Beyond the EU's trade deals, there are hundreds of other bilateral treaties and agreements. I think the *FT* put it at 759. The UK is obviously party to those by virtue of its EU membership. Which of those stand out as being most important to cross-border trade?

Allie Renison: It depends on the sector. If you were to go as big as aviation, we are looking at the MRA between the EASA in the EU and the FAA in the US, so there is continuity there. That has a big trade dimension, but it is not a classical trade agreement. If you are looking at the textiles sector, some of the ongoing trade agreements with smaller



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countries that may not jump out are very important. Some have recently been agreed or are being negotiated, for example with Vietnam.

I hope it does not come to it, but the question is: will we get to a stage where the Government have to prioritise? It also rests on the third country being willing to accept that. From feedback, I think they understand that this is not an opportunity to change the terms of the trade agreement. It is really about replication and conversion where possible.

Q241 Mr Jack: The Government said that, outside the EU, the UK will become “a global leader in free trade”. The first question is: what do you think this means in practice? Secondly, wearing your IoD hat, how much confidence do you think businesses have in that message?

Allie Renison: We are waiting for some substantive actions to be put forward. We know that the Department for International Trade has several working groups set up, which are following the right structure in terms of dividing between them short-term wins, continuity and looking at the future. As long as they take an approach that is methodological and heavy on consultation, that will prove that they are thinking about it in a very serious way. Having said that, all eyes are fixed on the EU negotiations, to see whether they are a bellwether. It is not quite analogous of course, because, given the scope of things involved in the negotiation, it does not deal with just classical trade elements. We are talking about financial settlements and legal disentanglement, so it is not a completely analogous situation, but businesses really have their eyes on the EU negotiations going on as a bellwether for how future trade negotiations may go.

Q242 Mr Jack: Mr Howells, before I ask you a serious question, I would like to ask you a light-hearted one I have always wanted to ask a car manufacturer. How disruptive is it to your business that most of the rest of the world drive on the wrong side of the road? It is like a left-handed batsman coming on. You have to reset the field.

Ian Howells: That is very true. It is just one of those things we are used to now. If you wish to trade in the UK, you have the steering wheel on the other side. Our Japanese colleagues are very used to that in any case. It is just one of those things you build into your process.

Allie Renison: I am glad you did not ask me that question—nationality alliances.

Q243 Mr Jack: How important are the preferential trade deals being negotiated by the EU to the European operations?

Ian Howells: We rely on a number of those already. The one that tends to stick out for us is Turkey, as we have what is best described as a daughter manufacturing plant to our plant in Swindon. It does not produce the same vehicle, but it has a commonality of componentry



sourced from the UK. In that respect, we get some benefit from that. As was described earlier, we are very used to dealing with third countries. In any case, our processes and systems are already geared to deal with that, as they are with the EU, so the change is not that dramatic, in terms of those countries.

That change point is that trading link with the EU and the trade flows that come with that. That really comes down to them. We rely on the FTA and the preferential trade agreements to some degree but, coming back to the point that Allie mentioned earlier, it then comes back to the rules of origin. From our point of view, what is deemed to be cumulation will be a very important part of the qualification for that preferential treatment.

Q244 **Mr Jack:** In copying over the EU's free trade deals, rules of origin are very important to you.

Ian Howells: They are, yes. They give you the access to certain marketplaces in such a way that you can avoid tariffs. We have certain marketplaces where we use something called EUR1, which is the export licence to say that you comply with rules of origin. If for whatever reason a particular vehicle does not reach EUR1 regulation and the tariff kicks in, we notice that demand elasticity is quite significant.

Q245 **Mr Jack:** Do you anticipate that, following Brexit, we would be outside the EU-wide total in terms of rules of origin?

Ian Howells: We would hope—and obviously through the negotiations there has been some mention of this—that there would be cumulation. In other words, we would maintain the EU as being local content, added to the UK content and other most favoured nation content, to still allow you to qualify under FTAs. There is usually a 55% to 60% requirement of local content.

Q246 **Mr Jack:** This is really a question to take back to the Minister. In your opinion, on which countries should the UK focus its negotiating energies for further free trade deals?

Allie Renison: For new ones or within the existing frameworks?

Mr Jack: New markets.

Allie Renison: It really depends on what the priority is. Is the priority to build negotiating experience? Is the priority to open up really difficult markets? For the latter, you can imagine that there are some countries where an FTA can make a substantive difference—India, for example—around whisky tariffs and the liberalisation of legal services. Is the UK going to go for India as its first trading partner, given the difficulty that not only the EU but many other countries have had negotiating trade deals with India? I would find it unlikely, so it depends on what the objective is.



Say we are looking at countries like New Zealand and Australia—I am not sure I would put the US in quite the same basket—that are not known for hugely defensively or offensively orientated positioning in their trade negotiating stance. Even though these countries are relatively open and I am not sure you would see a huge practical benefit in terms of trade liberalisation—maybe in agriculture—business would support it if it was relatively straightforward and helped the UK get on a footing that cemented commitments between likeminded countries. It can sometimes be difficult to keep businesses interested in very long and cumbersome trade negotiations, unless they know that they are planning to tackle some really tough barriers.

Q247 **Mr Jack:** I take from what you are saying that you are not seeing any low-hanging fruit here.

Allie Renison: It terms of immediate, deliverable, practical benefit to business, not necessarily with some of the easier countries to negotiate with, no.

Chair: We have to call it a day there, but thank you both very much indeed—you are both busy people—for giving up your time to come and give evidence to this Committee. It has been extremely interesting, so thank you very much for your time this morning.

Examination of Witnesses

Witnesses: Martin McTague, Nana Evans, Neil Warwick and Will Butler-Adams.

Chair: Thank you all very much indeed for coming this morning. We are very grateful to you. You are all busy people and I think you have all been sitting here, so you have heard some of the earlier evidence as well. We are going to get straight on with it. Please do not feel that you have to answer every question. Members will try to direct questions to particular members of the panel, but equally, if you want to contribute, please feel free to chip in. As I say, we are very grateful to you for giving up your time and expertise this morning. It is particularly important to hear from frontline business experience. That is what is most useful to us in terms of preparing our report.

Q248 **Catherine McKinnell:** Thank you and good morning, everyone. I will start by directing a question to you, Martin. What do you feel is the general sentiment of small business on the impact of Brexit?

Martin McTague: A nervousness has spread over the last six months. In the immediate aftermath of the vote, confidence seemed to hold up quite well but in the last review we did, which was only a couple of months ago, confidence has slumped quite significantly. That was partly



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as a result of domestic market weakness. It is quite hard to tell whether some corporates have already made the decision to restrict their investments and that is having a knock on effect on the smaller businesses. There is also a big increase in cost. Anybody importing products finds that those increases in cost are squeezing margins. That is feeding through into a slump in confidence.

Q249 Catherine McKinnell: Do you think that is being offset at all by an increase in exports as a result of the depreciation of sterling?

Martin McTague: We are not seeing it. If you look at small businesses, 90% of those that trade overseas trade with the EU. Even when asked what they would do in a post-Brexit world, 63% of them still say that they would prefer to trade with the EU. As far as they are concerned, it is the least costly market to trade with and it is also the most valuable, because it is relatively easy.

Q250 Catherine McKinnell: Are you seeing any particular regional variations in that trend or is that your picture across the country? Are there particular regions that are more exposed than others?

Martin McTague: We have seen, and Neil can probably give your more colour on this, in those parts of the country that are affected by changes in the structural funds, some nervousness about extending equity finance, which has caused a weakness in those regional economies. That is the only significant regional difference we have seen.

Q251 Catherine McKinnell: Do you want to come in on that point, Neil? For transparency, Neil and I used to work together in the same law firm.

Neil Warwick: I would agree with what Martin said: that the delay in the financial instruments, particularly in terms of the Treasury supporting the potential shortfall in ERDF, has caused a real slowdown at the bottom end of the market for SMEs. There are a lot of companies not getting access to finance, particularly in the north-east, the west midlands and London. In terms of regional disparity, the north-east is suffering a bit more because it is over-dependent on manufacturing.

Q252 Catherine McKinnell: I promise that I am not going to focus on the north-east, but I have one particular question on the north-east. There is an FSB report that is being reported on today on the entrepreneurial north, which is putting a tension on the European funding that is currently received in the north-east—I am sure it is in other parts of the country as well—and the concern of small businesses about that particular funding stream and its impact. I can quote, "We need cast iron guarantees about EU funding post-Brexit...One thing's for sure; we won't have a northern powerhouse unless that money's replaced". That is the view of the chair of the FSB. Is that impacting on investment confidence? Is that particular to the north-east or is it a broader concern that small businesses have?



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Martin McTague: It is built on the foundation of the British Business Bank report, which showed that there was real weakness when it came to equity finance the further north or the further away from the south-east you went. As soon as you are more than two hours away from London, the equity finance markets are weaker. That would mean that it became more dependent on the kind of structural funds we are talking about. As Neil says, that is a real factor. From what I have heard anecdotally, there is certainly a backlog of firms with real live projects that cannot get funding at the moment in the north-east.

Q253 **Catherine McKinnell:** It is really great that we have representatives from businesses here as well. Nana, I know the UK has not left the EU yet, but do you feel that the referendum result has had an impact on your business during this process?

Nana Evans: Yes, definitely. Similar to what you were saying, when buying in supplies, prices of everything went up probably within three months. I am buying in leather, which is coming from Italy. The box company that I buy from sent out an email soon after saying, "Our supplies are more expensive now so we have to pass that down on to you". Being a microbusiness, it is a harder for me to pass that on to the customer. They are trusting that I am delivering them a product and, if my prices change suddenly, I generally get emails in straightaway because I have the communication with my customers. It is like, "Well, it has been sitting in my car and now it is £5 more". That is quite large when you are also seeing it in dollars. Even though the pound has been weaker, I have not found that has changed buying habits. My spending costs have also gone up because I pay my Etsy fees in dollars. Everything has been more expensive in the last year.

Q254 **Catherine McKinnell:** What proportion of what you produce is sold where? Is it sold in the UK, in the EU or externally?

Nana Evans: The majority is going to America. About 60% of my sales go to America, then probably about 20% is going to European countries. It is a small proportion that is being bought in the UK. I am now targeting outside of the EU so I am trying India and South Africa. I have been trying to get into other markets where they are not used to getting so many craft products outside of their countries.

Q255 **Catherine McKinnell:** Do you feel that the value of the pound and the fall has not offset the additional costs?

Nana Evans: No, not really, because I am buying outside more than I am getting my supplies from UK suppliers. I am paying out more all the time.

Q256 **Catherine McKinnell:** Are you actively looking for different supplies and more cost-effective supplies?



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Nana Evans: Yes, it is just more expensive. There are quite a few tanneries in Scotland and I can buy from people in Northampton, but their prices are more expensive than if I am buying from Turkey or Italy, say. It does not really help, because it is still more expensive to buy from the UK.

Will Butler-Adams: We have grown from a relatively small, £2 million business to £35 million. Depending on which part of HMRC you look at, we are now a big business, because we have to pay the apprenticeship levy, or we are medium. I do not know.

Q257 **Catherine McKinnell:** In what timeframe is that?

Will Butler-Adams: About 12 years. I am fairly polarised in my opinion, but the debate is massively overrated and half of the problem is that we are spending so much time debating it. We are creating a momentum of fear. We have seen a 15% drop in the exchange rate; in our case, we export 80% to 44 countries around the world. That is probably about 300 grand on the bottom line. It has given us an ability to negotiate with our suppliers and push them to reduce their costs. We bring in stuff from Europe. We bring in stuff from Taiwan and America. At the moment, we are in a very strong position because we have seen our costs go up a little bit, but you can negotiate back against those costs. The massive thing is that we are invoicing in euros and dollars, and it has been good. I am not sure where we will be in 10 years' time, but in the short term it has been good.

In my opinion, for businesses that are small, a change in 10%, which is WTO rules, is virtually irrelevant. What will make the difference between a business succeeding or failing is its staff, its ambition and its vision. We moved factory. We have taken 25% out of our labour cost. That is far more relevant to our business than a 10% duty. We are dealing with 30% duty in China. We are dealing with a free trade agreement in South Korea and we are having to pay tax in Japan. We are dealing with a free trade agreement in Chile, but we have to pay tax in Argentina.

That is just business. If, as a small business or a medium business or whatever you want to call yourself, your entire business is reliant on Government, which moves along at zero miles per hour and changes its ideas every five minutes, you are in trouble. In business, you have to be in control. You cannot rely on a third party. I am just ignoring it all and I will find out what you all decide you are going to do in about two years' time.

In terms of managing it, we will stuff some stock into Europe if nobody has made their mind up, which is the most likely outcome, to offset a small problem that we may have with delays in customs. We will manage it. It is not a big issue.

Q258 **Catherine McKinnell:** Do you think that that is the case for all businesses or do you think it depends upon the size?



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Will Butler-Adams: No, because I was a £2 million business with 24 people.

Q259 **Catherine McKinnell:** That was 12 years ago.

Will Butler-Adams: Yes, but the problems were the same. We were exporting in the same way. You may be a business that is wholly reliant on European funding or a business in the financial sector where you need a licence, but the gentleman before was talking about all the work that we need to do with getting type approval. We have the same with bikes but, again, we have type approval for Europe. We are not any time soon going to start creating our own type approval for the UK. We do not even have a body to make a type approval for the UK. In the case of our bikes, we are going to carry on using the European type approval for the next five or 10 years before everyone works out that they are going to change it.

Q260 **Chair:** What would happen if the Europeans said, "You cannot use our type approval"?

Will Butler-Adams: It does not work like that. We are selling into Japan, which has its own type approval; America has its own type approval.

Q261 **Chair:** I am just talking about the European market. What Mr Howells was saying was that, if you want to export into Europe, in the event of a disorderly Brexit where everyone gets fed up with each other and walks away from the table, the Europeans might say, "We are not going to recognise the UK type approval". As you say, the UK does not have a body. Will we have to come up with a body?

Will Butler-Adams: I have never made my bike to a UK type approval because it does not exist. Neither am I going to, because we will not have one. My bike is made to the European type approval. All that will happen is the UK will just say, "Right, we do not have a type approval for the UK; just copy the European one". We will carry on doing that until people are ready to decide to change it.

Q262 **Chair:** As you said, Government moves at zero miles per hour, so copying the EU type approval could move at zero miles an hour.

Will Butler-Adams: In which case, we will have no type approval for the UK, so what are they going to do? They will default back on to the one they had, which is the European type approval.

Q263 **Chair:** So your confidence is that the Europeans will have to be pragmatic.

Will Butler-Adams: Europe is no problem at all, because we are trading into Europe; therefore we need a European type approval. That is their type approval. As long as we pass it, we trade into Europe. What you are referring to is what would happen in the UK.



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Q264 **Chair:** I am not talking about that. I am talking about if the Europeans decide to play really rough.

Will Butler-Adams: They cannot, because we pass the European type approval along with any other country in the world with which we trade, just like we pass the American type approval, the Japanese type approval, the Argentine type approval. They cannot. That is their type approval. We already pass the type approval, so all our work is around the European type approval. We are already trading in Europe, so nothing there is going to change. It is just going to be the import duty that might be 10%, but on the basis that we are seeing a 15% shift in the exchange, which is only going to go one way if we still cannot make our mind up, we are already in a pretty good position.

Q265 **Chair:** Are there no other regulatory approvals that you need for your business?

Will Butler-Adams: We are just launching an electric bike over there; that is 30 grand for European type approval. We are in the process of doing that at the moment. We will then do it in Japan; that is another 50 grand. We will do it in America, but America is split because it is state-led rather than national. That is just the nature of the beast. The European bit is relatively straightforward. I do not see that as being a massive disaster. Personally, I am rather sad we are leaving, but commercially we will get on and we are certainly not going to spend three years stagnating. We need to be twice as big in three years' time, so we are not going to spend our time, apart from turning up here today, getting too distracted.

Chair: We will try not to take too much of your time.

Q266 **Catherine McKinnell:** In terms of the legal world, do you have a lot of businesses that are seeking advice at this stage? Do you anticipate there will be a lot of companies requiring legal advice as a result of Brexit?

Neil Warwick: Yes. We started to get very serious mandates in January to do assessments for companies to move. By Easter, that changed to helping companies to move.

Q267 **Catherine McKinnell:** To move location?

Neil Warwick: From the UK. Certain sectors have made their mind up already that they are not staying in the UK, fintech being the most obvious one. We have also seen a big shift in attitude at the member state level, so the incentives to attract our companies have increased massively, particularly in the Balkan states. On the regulatory side of things, particularly with licence transfers for banks and insurers, it was very simple post-referendum; it was a paper exercise. Now you cannot get a licence transfer unless you transfer staff, particularly for Frankfurt and Paris.



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We have seen a huge increase in work, but a law firm benefiting in these economic times is not necessarily positive for the economy. I do agree with Will that, as a medium-sized business ourselves, we put our contingency plans in place in June, both to cover what we needed to do for our clients and to demonstrate responsible behaviour. It is much easier for a small or medium-sized company to react than it is for a larger company.

Q268 Catherine McKinnell: What is becoming clear is the difference in terms of impact on bigger, medium and smaller businesses. I come back to you, Nana, as a microbusiness.

Nana Evans: On that 10%, I was like "Wow, it would be great to be able to factor that in". It is not like that. We are living basically hand to pocket and, again, not being able to get financing makes the difference in fulfilling a month's worth of orders sometimes, depending on the time of year. It is not that easy. Even doing custom forms takes up time in your day. I have just taken on a machinist, so it is basically just me doing everything: advertising, filling in orders, making. I do not have the time to put in a day to do extra paperwork. It is very different from when you could pass that on to another employee or even hire somebody else to do the extra paperwork that may come along. That is not really a factor for me. It would be very nice.

Q269 Catherine McKinnell: So you do not think you are just dwelling too much on Brexit.

Nana Evans: Not really, no. It will be a reaction—because that is generally how our businesses go—to whatever the changes are, and hopefully we will be okay to react to it and still have a business.

Q270 Catherine McKinnell: What would you like to see from Government to support businesses like yours during this process?

Nana Evans: Just to keep that in mind, because it feels like microbusinesses are not really thought of and the thought process is going on small, medium-sized and large businesses. On Etsy alone, there are 150,000 microbusinesses, and that is just one company. There is eBay and there is Amazon, so there are thousands of us who are sometimes working from home or small studios. Lots of people have disabilities or mental health issues. That is why they cannot get a traditional job. Our money is coming in. We are entrepreneurs, but we are very small. I do not know if there will be access to funding or, if there are huge changes that affect our days, that we will be able to get support. There is just that thought process that microbusinesses have different needs from a small business.

Martin McTague: You have heard the spectrum of opinion there. We have surveyed members. The majority of people will decide to disinvest and not to expand. They will not be in the same position as Will, who is clearly confident that he will get through this process. The other thing



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that a lot of businesses will do is leave it right to the very last minute and then, if there is a massive change in March 2019, they will not be prepared for it. It is clear from everything we have seen that they will not be prepared for it. If there is one ask, it has to be that we have a decent transition period, so people not as well prepared as Will can make it through that period without damaging their businesses.

Neil Warwick: We have seen a massive slowdown in the creation of microfinance businesses and small businesses. That tracks back to the recession. If you look at the Government's reaction during the recession, you'll see that it was to cut microfinance CDFIs and lots of schemes that helped people out of worklessness. You are feeling that effect now, nearly 10 years later. There will be something similar with Brexit. We cannot quite see what it is, but it will be 10 years before we see the real economic damage.

Q271 **Kit Malthouse:** You have broadly answered my questions, which were about whether it was going to be a faff to do paperwork. I should say I am a proud FSB member. Ms Evans, I did not understand the maths on what you said right at the start. If you are importing and exporting, and taking in margin in between, and both your revenue and your costs go up, your margin should have gone up as well. You should be making more money.

Nana Evans: No, not really. Year-on-year, yes, my business is growing as a microbusiness, but my fees—and this is just between sellers and Etsy—because I am paying in dollars, are going up as well.

Q272 **Kit Malthouse:** But you are not changing to UK and then changing back to dollars. Your income comes in in dollars and you pay in dollars.

Nana Evans: No, my income comes in in various different currencies, but I am paying out in dollars. I am paying more month-on-month.

Q273 **Kit Malthouse:** The income you are getting in must have gone up as well, because the pound depreciated against all currencies.

Nana Evans: No, I did not find that difference. When it comes to buyers buying from America, that has slightly gone up, but there is shift in confidence with my European buyers buying from a UK seller, so that has gone down a bit from last year. There has been a shift in how people are spending. I went to Paris and did a pop-up shop there and, generally speaking to people, there was a real distrust. We were in France anyway but generally, just since Brexit, there was quite a shift in feeling towards UK and UK sellers. There was not that confidence that I had experienced before, so the business is changing.

Q274 **Kit Malthouse:** I also want to ask Will about the electric bike market, as an electric bike user myself. As I understand it, there is a battle going on in the EU about the growth in electric bicycles versus the large vested interest in the moped industry. The moped industry is heavily lobbying, in



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terms of directives, designs and all the rest of it, basically to make your life a misery by changing the requirements all the time so you constantly have to redesign your bikes. Is that your experience? I went from one bike one year to the next, where I was told I was not allowed to have a throttle.

Will Butler-Adams: The European law is relatively stable. The market in Germany has grown from €20 million 12 years ago to €1.2 billion. It is of such a scale now that it is not going to be changed or stopped by Europe. It has its own lobby group and it is contributing to urban living. You will have electric mopeds, but at the moment most of them create particulates and carbon dioxide. From our perspective, we are focused on making a product that works and, if we can do that, there is plenty of opportunity in Europe—in the UK as well, but in Europe particularly.

Q275 **Chair:** What about the opportunities? There are some people who say there are opportunities from Brexit, and I was thinking particularly in relation to VAT. I do not know whether the panel has any views on whether the divergence from the EU VAT framework is an opportunity or a threat.

Martin McTague: It is both, really. VAT MOSS was useful because it provided a simplified framework to deal with. We would be looking for something similar if we could negotiate it as part of this divorce arrangement. A more immediate threat is probably what the Chancellor is planning for next Wednesday. There is a lot of talk about changing the threshold and it would not be a great time to do that in the current climate.

Will Butler-Adams: From our perspective, I am relatively relaxed about these tiny tweaks. They might affect massive companies like Toyota in highly competitive industries. My feeling is that, in the small to medium and even micro, innovation is key. The risk we may have within the UK is not bringing in talent.

Q276 **Chair:** I was going to ask about immigration.

Will Butler-Adams: The bit that worries me is bringing in brains because that is where your innovation comes from, particularly if you are trading internationally; we have people from China, from Spain, from France. Our business is extremely cosmopolitan because it helps you trade internationally. It is not about these funny criteria they put about what degree you have. It has nothing to do with a degree. It is the fact that you were brought up in a country, live and breathe it and understand how people think. That is the bit I am after. If we create or overly create this obsession with migration, that is net bad. If we can raise the quality and the diversity of our migration, great, but this obsession with squeezing it down to nothing would not be good. One thing we have to do in Brexit is become more cosmopolitan, more international and trade with India, Bangladesh, China and the whole of the Asian belt. We need to get more international, not less. That is a risk.



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Q277 Chair: With the decision taken to leave the single market and the customs union because we cannot remain part of them without also accepting freedom of movement, what is the view on that particular trade-off? It sounds like you obviously will want there to be a continuing fairly liberal immigration policy.

Martin McTague: About 20% of small businesses employ EU nationals at the moment. One thing that is missing from the debate about that is that it tends to be very binary. It is either about them being very highly skilled or unskilled. Actually, there are a lot of people who would not qualify in either of those categories. A lot of small businesses in the UK need that kind of innovation and new talent, which is in very short supply. As an immediate threat to a lot of businesses, that is a present danger.

Q278 Stewart Hosie: This is just a quick question to Nana, and it follows on from the issue of VAT. I know that a lot of people who trade on Etsy, Folksy and eBay stay within the VAT threshold; otherwise there is a 20% hit for nothing, until you can really grow the business. On top of the other issues you have raised with the exchange rate fluctuation, if the VAT threshold was to effectively halve, what would that do to microbusinesses that are getting by, turning over between £60,000 and £80,000 before they make next big leap? What would it do to businesses like yours or similar that are trading just beneath the threshold?

Nana Evans: I have just gone over. I am just in the process, and the challenge I am finding is that I have no clue. I am having to learn and I am reaching out to business support companies to be like, "Okay, I am so clueless in this". I have no clue and I do not want to fall foul of the law, so I need a bit of coaching and an accountant. If it was happening at £40,000, that was probably my year one, so I would have been even worse off. It is the paperwork. When you are running a business by yourself, having to do more paperwork, even just a self-assessment, takes a lot out of you and your business, let alone having to do VAT as well. It would affect a lot of businesses.

Martin McTague: We have just done a survey of different tax regimes. We are still crunching the numbers, but one thing standing out very clearly is that VAT is the area that has the most time impact and causes the most grief as far as small businesses are concerned.

Stewart Hosie: I know we are digressing but, because it is an additional burden and with what else is coming, it is useful to get those warnings before the Budget.

Q279 Rushanara Ali: Martin, you mentioned that small businesses were likely to leave it until much later and one thing that would really help is the transition deal. What do you see as the costs of that and the consequence? We have obviously been talking in the previous sessions about other businesses, but how do you see that as being distinct and what kind of disruption do you see in the economy?



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Martin McTague: Classically, a lot of businesses leave it far too late. They do not make decisions strategically; they tend to be very tactical. If the past is anything to go by, it will probably be the back end of 2018 before some people wake up to what is going to happen. If we are about to drop off a cliff in April 2019, they will be completely ill-prepared for that and it will almost certainly result in business failures.

Q280 **Rushanara Ali:** I know it is difficult to estimate, but what percentage do you think are vulnerable?

Martin McTague: It is really difficult to say, because nobody holds their hand up in surveys and says, "I am teetering on the edge and I am about to tip over".

Q281 **Rushanara Ali:** Just from your expertise, do you have a sense?

Martin McTague: I honestly could not guess, and it would probably be wrong to guess.

Will Butler-Adams: I do not agree necessarily that there is a cliff. We know exactly what it is: it is that there is no deal. Anything else is up from there. As a business, you just need to make very clear that you have understood. You know exactly what the worst-case scenario is: there is no deal. That means WTO and that means all sorts of shenanigans at import duty. If the language is all panicky, it causes small businesses to worry.

Q282 **Rushanara Ali:** Yes, but your business trades with many other countries so you are much more insulated than other businesses. With respect, I do not think calling it panicky and scaremongering is appropriate for those businesses that do not have the same sort of structure as yours does. We need to be careful about that.

Will Butler-Adams: I did not say it was either panicky or scaremongering. I was saying that we know the outcome. What the Government can do is encourage small businesses and say, "Are you prepared for this outcome?" That is the message. It is not "scaremongering", which is the word you gave to me.

Rushanara Ali: "Panicky" was your word.

Will Butler-Adams: Just let them know that an outcome for business in 2019 is that we do not have a deal and ask, "Do you understand the implications?"

Q283 **Rushanara Ali:** The Government do not know.

Will Butler-Adams: Forget the Government. That is the worst outcome.

Q284 **Rushanara Ali:** You asked the Government to be specific to people. The Government do not know whether there will be a transition deal or whether there will be no deal.



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Will Butler-Adams: In business, you prepare for the worst.

- Q285 **Rushanara Ali:** That is my point. The question is about preparing to prepare, from a capability point of view. Your company seems to be capable of preparing and adjusting, and your approach is a really positive one. Not everybody will be in that position, and that is what we are interested in and not just one perspective.

Martin McTague: The big thing is that, if I did a survey—and we have not—I am not even sure how many people would know what WTO was. We have a very wide interpretation of what that will actually mean.

- Q286 **Rushanara Ali:** What do you think that the small business world needs from the Government and the federations to really ramp up the level of awareness and input? Otherwise, the costs are borne by them. Whether that is legal fees or learning very fast in the time, it would be helpful to have some clarity about what specific help is required. The bigger and medium-sized businesses are doing a much better job of lobbying to get what they need, and the voice of the smaller and microbusinesses is critical.

A final point was about finance. You mentioned London and fintech, which is alarming considering the two-hour journey away from London that you mentioned and access to finance. If it is hitting small businesses even in London, what are the implications? At the expense of sounding like I am being alarmist, it is related to your point about how it is affecting small businesses relative to others.

Neil Warwick: It is not just small businesses; it is relatively large businesses. If you look at the Estonian electronic passport, it is very attractive to the fintech industry. They can become an Estonian resident without any investment whatsoever, so they are just doing that now as a back-up plan. Communications businesses are taking out the passport but looking to move because the rules of origin and the codification are just too complex.

It is a complete distraction to look at tariffs. Other than the food and drink industry, I have not come across a client that is bothered about tariffs. Everybody is bothered about the additional administrative burden, which can be incredibly significant. It is forcing people who are going to see that burden to make plans now. Martin is right: the vast majority of businesses are not making plans.

- Q287 **Wes Streeting:** Will, I am really struck, with global exports being such a huge part of your business, that you are profoundly patriotic about where you locate your manufacturing. Picking up your point about preparing for the worst case, you have been very clear that new tariffs would be a bit of a bore but not a reason to shrivel up and die. Were the EU to start applying its WTO tariff on imports of bikes, which is currently 8%, would that lead you to relocate production to the continent or would you stick where you are?



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Will Butler-Adams: We have a shift in currency of 15%, so the net effect for us would be a positive 6%, so the answer to that is no.

Q288 **Wes Streeting:** Picking up on your point about migration, which was very well made, would a more restrictive post-Brexit migration policy cause you to think about moving?

Will Butler-Adams: I would not move the business. It would just be a pain. I have a 15-year lease. It cost me 2 million quid to turn what was a box into a factory, so I am stuck. Again, the thing that will transform the business is not an 8%, 10% or 12% shift in anything; it is the successful launch of something radically different. To my mind, those things are more important. The people, the grey matter and the ability to help grow the business and innovate are more important to me than these slight shifts.

Q289 **Wes Streeting:** Out of interest, you said you were sad to be leaving the EU. How far, if at all, has the UK's EU membership restrained your export growth?

Will Butler-Adams: In reality, it has not done anything of the sort. It has done the opposite in the short term because it has weakened the pound. If you look at somewhere like Japan, we have seen over a 20% shift in the currency.

Q290 **Wes Streeting:** Forgive me. I did not mean to ask how Brexit has impacted it. In terms of our historic EU membership, has that restrained your export growth?

Will Butler-Adams: Are you saying the historic EU has restrained it?

Q291 **Wes Streeting:** Part of the argument for Brexit has been predicated on global Britain: "We are going to trade with the rest of the world" and all that rubbish.

Will Butler-Adams: Completely not. Our biggest exporter for a long time has been Japan and South Korea. Again, so much of this is mental. First of all, people do not think they can export at all. Newcastle is a long way away, and getting to France is a big journey. There is South Korea, Singapore and all these other markets. Funnily enough, we found it harder to trade with the US than it has been to set up our operations in China. It is a mental confidence thing, which is why I worry that, every time you look at something, there is another review and people worry about it.

Q292 **Chair:** To your point there about it being difficult with the US, one of the things we have heard is that President Trump has promised us an easy free trade agreement. Presumably you do not really think that is a goer, at least in the short term.

Will Butler-Adams: As with all these things, if we get them, I will have them, but I do not assume they are going to come.



Neil Warwick: You cannot rely on trade deals with the US, because you have to get state clearances. You have to go through 50 states.

Q293 **Wes Streeting:** Through our EU membership, there are trading benefits with the rest of the world. You export to South Korea, and the EU-South Korea trade agreement eliminated tariffs on bicycles so, again, it would be a pain, were tariffs to be introduced. You made it very clear where you stand, and it is not the end of the world for you, but how important is it for Government to prioritise, as part of their talks on Brexit but also talks with other countries, eliminating those tariff-based barriers?

Will Butler-Adams: I am a huge supporter of free trade, because the consumer cannot understand, in a globalised world, why, in our case, Japan is more expensive than South Korea. That is because we have a free trade agreement with Japan. The punter does not understand that. They just think we are ripping them off in Japan. I am very pro having free trade, but, at the same time, we have subsidised industries in China where it is not a fair playing field if you go to free trade, because they are subsidising the industry and it is not fair. We are not quite there yet.

The Government need to get on and create as much free trade as they can. From my perspective—and I am only talking about my perspective in the context of our little company—that is your job. If you ask for my insight, I will tell you, but that is what you are paid to do, so please do it. I cannot get distracted from my job, which is not your job; it is over there: it is a bike. If I get distracted, I am likely to not be as strong in three years' time, because I will be worrying about all this other stuff rather than making great products.

Q294 **Wes Streeting:** I am going to cease distracting you. You have given a clear call to action. To conclude with our other London success story, Nana, in terms of your business and what is important to you, what is your key ask of our Government and the European Union? What do you need to see from the next phase of negotiations?

Nana Evans: Similar to what you said, most of my machinists come from Hungary or Lithuania, because they still have that maker trade there. I find it so hard getting skilled machinists over here; they are generally eastern European. That was a real worry. Two of my machinists at the moment are just like, "What are we going to do? Is it like we have to leave now? Are we going to have to leave?" That is a major thing.

Then it is customs, charges and tariffs. How am I going to be posting stuff out? What are the charges going to be on the other side? I experienced a real shift in business when there were some changes in Canada. I did not really look into what happened, but whenever I shipped to Canada they were getting huge duties, so now I generally do not get any orders from Canada. That is a massive market that I am not getting anything from. That is the worry: that things are going to change, and I will be sending stuff out to Germany and it is going to cost so much on their end to receive a product from me.



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Q295 **Wes Streeting:** Presumably, for your business, the impact on your margins is more significant.

Nana Evans: That is where a business can end, and then I will be trying to find a job.

Chair: Let us hope not.

Wes Streeting: You have been a great panel. Thank you very much.

Chair: Thank you all very much indeed for your time. If there is anything that we did not cover and you would like us to be aware of, please feel free to write. You are all very welcome to come back. That is particularly likely for Martin, because the FSB has a good relationship with the Select Committee, so I am sure we will see you and maybe the others again. Thank you very much for your time today.