HOUSE OF COMMONS

Business, Energy and Industrial Strategy Committee

Oral evidence: Work of the Department, HC 604

Wednesday 29 November 2017

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Watch the meeting

Members present: Rachel Reeves (Chair); Vernon Coaker; Stephen Kerr; Peter Kyle; Rachel Maclean; Albert Owen; Mark Pawsey; Antoinette Sandbach.

Questions 1 - 84

Witnesses

I: Rt Hon. Greg Clark MP, Secretary of State for Business, Energy and Industrial Strategy; Claire Perry MP, Minister of State for Climate Change and Industry, Department for Business, Energy and Industrial Strategy; Alex Chisholm, Permanent Secretary, Department for Business, Energy and Industrial Strategy; Gareth Davies, Director-General, Business and Science, Department for Business, Energy and Industrial Strategy.

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Examination of witnesses

Witnesses: Rt Hon. Greg Clark MP, Claire Perry MP, Alex Chisholm and Gareth Davies.

Q1 **Chair:** Thank you very much, Secretary of State and Minister, for coming in today and for bringing officials from the Department with you to talk about a whole range of issues from industrial strategy to Brexit and *Good Work*. We are mindful of time this morning and before you arrived, Secretary of State, we all committed to brevity with our questions, so—

Greg Clark: You want me to commit to it.

Q2 **Chair:** It would be very good if you did and then we will allow you to go promptly at the end, so that is our first plea. We are very pleased to see you. It is the first time we have had the full evidence session with you, although you generously came in earlier in the term to talk to us about energy prices.

If I can kick off, in 2015, Secretary of State, the productivity plan sought to address weaknesses in productivity by improving infrastructure, skills, R&D and long-term investment incentives. Since then, productivity has weakened further and, of course, last week the OBR revised it down. Why do you think that that productivity plan did not succeed?

Greg Clark: While maintaining your injunction to be brief, since this is our introductory session with the Committee, can I just say how much I look forward to working with the Committee? The Committee has been highly productive since it was only formed last month and the fact that you have seen all of us even before the introductory session signifies the importance of the issues.

I just have a note about the opportunity for us. I have worked in previous ministerial capacities with Select Committees and have always taken the view that, if we can follow the advice of the Committee in the development of policy, we have the benefit of picking your brains and the brains of the witnesses who come before you. I hope we will be able to do that, as well as your very important function in holding me and my colleagues to account.

On the question that you raise, Chair, I think you know the answer to that. The productivity slowdown that has taken place in the British economy and other economies since the financial crisis has very long-term roots; it is affecting most western economies. The way to address that is through a long-term approach. This is absolutely what we have taken through the development of the *Industrial Strategy* White Paper. I have, very deliberately, through publishing a Green Paper earlier this year, *Building our Industrial Strategy*, had probably the most extensive engagement programme across all parts of the country, with all parts of the economy, not just businesses but universities, colleges, trade unions and consumer groups. The way that you can address deep-seated problems, it seems to me, is to commit to the long term and build, as much as is possible, a national consensus about how you will have a sustained approach to addressing the problems, in the same way that other countries have had that confidence and that stability for many years. That is the approach that we take.

Q3 **Chair:** We would all agree, I think, with the sentiment there, but I would just say two things. First, the productivity gap with other western economies—the United States, Germany and others—has widened in the last few years. Before the financial crisis that gap, although it existed, was closing. Something has been going wrong specifically in the UK economy since the financial crisis with our productivity performance. Given all that extensive work that you have spoken about, what have you learned from the 2015 productivity plan, which was also launched with much fanfare but, in the end, does not really seem to have made much difference in terms of addressing our productivity performance?

Greg Clark: First, in terms of those comparisons, we have to be cautious about drawing too many inferences from data in the relatively short term on which there is a big debate as to whether it is completely capturing the real picture. I will give you a couple of examples of that. Our economy, as this Committee knows, is much more dependent on and benefiting from services, and particularly financial services, than other economies. We know that and, since the financial crisis, obviously there has been a particular impact in those sectors.

There is also a big question—and I hope the Committee will address this ahead of time—as to how some of the new technologies can capture aspects of improved performance that are not captured strictly accurately in the output per person hour worked measures. There are some measurement challenges there, so it would be wrong to draw hard and fast conclusions from a very short period of time. This is one of the reasons, in the *Industrial Strategy* White Paper, that we responded to the recommendations of many groups that we should establish an industrial strategy council whose first task is to set some benchmarks against which we can be judged. That is very important.

There is one other thing I need to say before we come on to the productivity plan. Another big feature of the UK economy is our success over the last seven years in not only maintaining but increasing employment, with 3 million extra people employed. Again, strictly on the definition, one way that you could improve productivity is to take people out of work, have them in unemployment and see the average level of productivity rise. My view, and I dare say it is the Committee's view, is that that would not be a sensible way to proceed. We can be proud of our performance in increasing employment, but we now need, and the strategy is very clear about this, to increase the quality of jobs, increase the earning power of those jobs and spread prosperity across the country.

In terms of the productivity plan and the policies that have been pursued over recent years, they are long-term policies and they will have a long-term effect. If I take, for example, some of our reforms on planning and housing, which were a big feature of that plan, you will know that the number of planning permissions is now, from memory, approaching three times what it was—over 300,000 planning permission per year—and that is not an accident. My first job in government, as Planning Minister, was to take over 1,000 pages of inherited planning policy and reduce that to a simple document, the *National Planning Policy Framework*. Any witness that you call from the housebuilding industry or local government—people responsible for obtaining planning permission—would recognise that that has had a big improvement in the regime. That is one example.

Q4 **Chair:** Yes, and now you need to get those houses built. You have put a quote in the *Industrial Strategy* document from the chief economist of the Bank of England, Andy Haldane. He talks about our productivity performance in the low-productivity sectors and the importance of closing the gap there. In the sector deals that you announced there was not a sector deal for some of those low-productivity sectors: retail, hospitality, tourism or social care. Are you planning to announce sector deals in those sectors to boost productivity and, if so, when?

Greg Clark: Yes. It is a very important point. Andy Haldane's analysis, which the Committee is familiar with, has been very influential with us. Again, having taken a serious view of the productivity challenge, and it is expressed in the document, we need to not only improve our top performers, keep them at the top, but recognise that, to a large extent, it is a question of composition. At the same time as having some of the most highly productive sectors, industries, companies, people and places, we have some people—and Andy Haldane has described this as being the "long tail"—who are below that. There are a number of measures in the White Paper that address that.

Q5 **Chair:** But they did not get a sector deal. My question, because I am keen to move on, is: will there be sector deals for those sectors? They obviously were not in your first wave, which suggests to me they are not your first priority, so when will they be announced?

Greg Clark: No, not at all, quite the opposite. One of the sector deals, for example, is with the construction sector. It is specifically about improving the level of skills in the construction sector, joining up policy.

Q6 **Chair:** Yes, but I am asking about some other sectors, with respect. I have asked about hospitality, retail, social care and tourism, sectors like those that Andy Haldane spoke about being in the long tail. When will the sector deals be announced for those sectors to boost productivity, because that is where you can make the real gains?

Greg Clark: All four of those sectors are mentioned in the White Paper as being areas in which we are going to work together with the industry.

Q7 **Chair:** Could you give us any timeframe for when sector deals will be announced?

Greg Clark: It is a good question, which illustrates the approach, because it is not a question of announcing sector deals. It is not for me to announce sector deals. It is an invitation—

Q8 **Chair:** But you have announced sector deals. It is just you have not announced them for those sectors. If you do not have plans to announce sector deals, just say that to the Committee. I am just asking whether you have plans for sector deals in those four sectors I have mentioned and when you plan to announce or conclude them with those sectors.

Greg Clark: I expect to have sector deals, but the essential requirement is that the sector proposes to the Government a set of measures. We are in conversation with all those sectors. I fully expect those to result in important sector deals like in construction and as in the ones that we have announced. The life sciences sector deal is a good example of that, because it involves not just the high-end research but medical manufacturing, creating jobs around the country in that. This approach is important.

Q9 **Chair:** I understand that, but the whole premise of my question is building on the important work that Andy Haldane has spoken about in this area. We have the long tail of sectors with low productivity. If we boost productivity in those sectors, Andy Haldane says that will do a good job in closing the productivity gap. You can make electric vehicles and AI the most productive in the world, but we are still likely, if we do that, to have a long tail of low-productivity sectors and firms. I have spoken to some of those sectors that I have already mentioned. They are keen to do sector deals, but they have not been announced yet, so I would urge the Secretary of State to make those a priority. That would do a good job of closing the productivity gap.

Greg Clark: We will be doing that, but it is important that I say this. In the Green Paper, which as you know is a consultation paper, we asked the question: "Would sector deals be a good way to proceed as a policy?" The response to that question was overwhelmingly positive; in fact, it was emphatic. We seeded a few of them, including life sciences and others, and the response has been such that sectors across the economy, including the ones that you have mentioned, are now coming forward with their proposals. It is a fantastic development. It is a big endorsement of what was an idea and a proposal built on the city deals that I was responsible for developing. We are now going to do that and it is going to have a big effect.

Q10 **Chair:** I am keen to move on to the next questions, just because we have a lot of people. I would urge that the everyday economy needs to have its productivity improved as well. The focus on the narrow range of sectors announced earlier this week, while welcome, we need to build on and include other sectors. I will move on.

Greg Clark: The strategy is not focused on a narrow range of sectors. It addresses the whole economy. The analysis inspired, in many respects, by the work of the Bank of England is absolutely at the heart of the industrial strategy. This is a plan to work together with these sectors to improve productivity right across the economy. What we have to say about skills, research and development is not exclusive to the top end. Getting innovation and improved processes into those firms and sectors in the long tail is extremely important.

Chair: I hope that sector deals will be forthcoming for those sectors.

Q11 **Albert Owen:** Can I continue the line of questioning on sector deals and productivity? The document, which is a weighty document, was produced on Monday, the same day as the royal wedding was announced, which was not your fault. I know that.

Greg Clark: There were two pieces of good news.

Albert Owen: I have had time to read it, not in the newspapers, but actually read it. When did the Government become converted to picking winners? I am glad it is done, but you and I have talked about the nuclear sector, and there is a sector deal for the nuclear sector. To follow on the conversation you had with the Chair, you have picked some and you are moving forward on them. On page 207 of the document you talk about "ongoing discussions" on nuclear. How advanced are those discussions and when can we have the deal and the plan? Are we talking January? Can I be specific with you, because these are ones that are advanced that you have already picked?

Greg Clark: To answer your first question first, it is not about picking winners. The industrial strategy, in response to feedback from the consultation, is very broad. The five foundations of productivity that are at its heart address all sectors of the economy. We talk about skills, ideas and innovation, the infrastructure, the importance of place and the business environment. It is absolutely not about picking winners.

Q12 **Albert Owen:** You identified sectors, did you not?

Greg Clark: We have the opportunity through the grand challenges to look ahead and look at areas around the world, not in terms of particular companies or even particular technologies. We know that the shift from dirty, polluting energy to clean energy is going to transform the world. We happen to be one of the best places in the world, as you well know, in terms of not just the research but the development and the application of that. The strategy mobilises all our resources to join up policies—for example, on battery storage, bringing together mobility and clean energy—and make sure that they are all pointing in the right direction.

Q13 **Albert Owen:** I am sure we are going to have you answering questions, and the question was: when is this sector deal going to be ready?

Greg Clark: On the nuclear sector deal, as with the city deals, we have said that we want to negotiate, based on the success of other engagement, and the automotive sector is a good example of that, a really strong deal. John Hutton is leading those discussions and they are proceeding very well. I do not have a particular date in mind, but they are very well advanced. This is a good example of how an area that is going to receive a lot of investment can have big effects on the rest of the economy.

Q14 **Albert Owen:** The reason I am pushing you on this particular sector is because I have an interest in it, but also we had the consultation on the SMRs, for example, and we still have not had a response from the Government. We had the Swansea Bay tidal lagoon, the Hendry review, and we have not had a response from the Government. If this is the fast track, one of the first ones you have announced, and we do not have many answers, it is very difficult. I have been talking to investors, as you have, and they are concerned that these decisions have not been made. That is why I am asking you for a timetable. It is very good to have a strategy document, but we need timetables so that we can get these investments. I want you to answer on both SMR and on Swansea Bay. When are we going to hear a response to the Hendry review, which was undertaken and given to you last year, in December?

Greg Clark: It was the beginning of this year. In terms of the sector deals, it is very important the Committee understands these are not Government announcements that we are imposing a sector deal. We are, as I hope you can tell, wildly enthusiastic to negotiate these things, but they will come forward with the industry taking a lead. You will see these coming forward.

Q15 **Albert Owen:** Secretary of State, with respect, the two examples I have given you are Government announcements about the consultation. We need to know the results of the consultation and the review, and so does the business community.

Greg Clark: I understand that. They are not part of the sector deal per se.

Albert Owen: Well, they should be, in my opinion.

Claire Perry: This is a way to think about the sector deals, because obviously industry has been asking these questions. I have been leading the challenge sessions with all sorts of industries and this is not about saying, "Here is a lump of money. Go away and see what you can do with it".

Albert Owen: Nobody is saying it is.

Claire Perry: We are genuinely trying to ask industries, "How will this fundamentally change the way that your business works in terms of productivity improvement?" The ones that are in the industrial strategy were four really good examples. They illustrate lots of different things so, in a way, they should be seen as encouragement for the other deals, all of which are in progress.

Q16 **Albert Owen:** I understand the theory behind it, but you, as a Government, undertook the review. You, as a Government, undertook the consultation on SMRs and the business community wants to move forward now. Can you tell us when we are going to hear about the Hendry review? It is a legitimate question to ask and it is what industry and the supply chain are asking, so that we can be world leaders, which your document identifies we could be and we should be.

Claire Perry: Again, as you know—and we had the conversation yesterday—if we are making substantial technology or investment commitments they have to be properly scrutinised. You have been a brilliant campaigner, Mr Owen, on energy diversity and nuclear, and I appreciate your frustration, but it has to be—

Q17 **Albert Owen:** It is not me who is frustrated. I am speaking on behalf of the industry. I had breakfast with them this morning. They talked about—I made a note of it—clarity and pace. They are not getting the clarity and there does not seem to be the pace, so I am putting that to you, as the two senior Ministers, in this session, and I am not getting a response. That is why they are frustrated. This is on the record. They want clarity so they can start getting the money together, because they are worried the money will go elsewhere.

Greg Clark: I understand that. It is very important and this Committee will want to scrutinise decisions that we make on this. When it comes to energy diversity, as Claire says, there are big opportunities, whether in tidal technology or SMRs. However, we need, and this Committee will require us, to take those decisions in the context of value for money for the taxpayer and the consumer.

Albert Owen: I understand all that and so do they.

Chair: You have had 10 months, though. What Albert Owen wants to know, and then we will move on, is whether you have a timetable for when you are going to respond to the Hendry review.

Greg Clark: When these studies have come to a conclusion, and we are not at that point yet, but it will not be much longer. I recognise completely the—

Q18 **Albert Owen:** Do you have civil servants working on this?

Greg Clark: Yes.

Q19 **Chair:** Okay, so it may be by the end of Q1 next year, because that will be more than a year.

Greg Clark: We are not going to set a timetable.

Claire Perry: That would be irresponsible.

Q20 **Chair:** Why would it be irresponsible, Minister, to give a timetable for when you are going to respond to a review? Why commission a review if you do not plan to respond?

Claire Perry: We do not commission reviews and say we will respond within a certain timeframe. You would expect us, as the fiduciary managers of other people's money, and those who will be coming back to Select Committees for years to come to justify investment decisions, to have scrutinised that properly and to scrutinise it in a world that is changing very rapidly in terms of costs, proposals and technology. We have lots of civil servants working on this. We have extremely well-respected industry leaders who are advising us on this.

Albert Owen: They are asking for answers.

Claire Perry: The decision will come forward when it is ready. That is what you would expect us to do.

Chair: We expect you to get value for money for the taxpayers, but we also expect you to make decisions. If it is not good value for money, just conclude that.

Q21 **Stephen Kerr:** This is on the same theme. The industrial strategy talks about investment into targeted areas that will have the biggest impact on productivity. There are huge sums of money, £4.9 billion in transport, £11.6 billion in housing, £740 million in digital infrastructure, but nothing about outcomes. Why is there nothing about outcomes in relation to productivity improvement, for example?

Greg Clark: It is a very good and a very important question. One of the things that we have said in establishing the *Industrial Strategy* White Paper is that we should build this up as a major part of our stewardship of the economy. Not just this Government but I hope subsequent Governments will regard their performance in industrial strategy, reviving the potential of areas that have lower productivity and achieving more for the best, as essential. We have proposed here, in line with the recommendations from many responders to the Green Paper, that we should set up an industrial strategy council that will make a report to Parliament every year and, I am sure, to this Committee, which will monitor precisely that progress and that impact.

Q22 **Stephen Kerr:** Why did you feel you needed to set up a committee to tell you what success looks like?

Greg Clark: Let me give you an example of that. One thing that is very possible to monitor is the investment in research and development. That is very important and we have set, very clearly, a measure that goes with the target. At the moment, we invest about 1.7% of GDP in research and development. We have said that we intend to get that to 2.4% by 2027 and 3% thereafter. That is very clear, but it refers back to the question at the beginning on the measurement of productivity. Rather than choosing the measure that happens to be currently in vogue, which has some deficiencies and has some questions as to whether it adequately measures the contribution of services, for example, the best thing is to develop such a measure but to take the advice of experts, economists and academics, as well as people in industry, to make sure that the measures that we are judged against are the right ones. That is a serious way to do it.

Q23 **Stephen Kerr:** So there will be targets.

Greg Clark: Yes, absolutely.

Q24 **Stephen Kerr:** Okay, that is great. Moving on to the context for the industrial strategy and Brexit, what assumptions have you made about the type of Brexit that we are going to have? It is not clear in the document what your underlying assumptions are.

Greg Clark: The industrial strategy consultation established very clearly that the context of Brexit, for the next few months as negotiations take place, is inevitably going to have some uncertainties attached to it. None of us knows the final outcome for that, so to have a strategy for the long term that is tied to one particular set of conditions in the final agreement would be the wrong thing. What we have sought to do in the industrial strategy, which, in my view, we would and should want to do even if the country had not voted to leave the European Union, is to set out, seriously and in a way that embraces the whole country, the areas in which we need to improve our performance no matter what, and the opportunities that are there for the taking if we organise ourselves. The industrial strategy plots a course that, in my view, whatever the outcome of the Brexit discussions, is relevant.

Q25 **Stephen Kerr:** Is the strategy dependent on maintaining research collaboration, for example, in your view?

Greg Clark: Yes, research collaboration all around the world. One of the big conclusions of our consultation, and this is my view anyway, is that the best and most successful research is international, certainly with the European Union—of course we want to continue the effective relationships that we have there—but globally too.

Q26 **Stephen Kerr:** What about smooth, frictionless supply lines?

Greg Clark: Yes, very much so. This strategy points out that the future of a highly productive economy, a more productive economy in the future, depends on an international outlook. This approach is not about national self-sufficiency, withdrawing from the world and trying to do everything ourselves.

Q27 **Stephen Kerr:** We will have shared frameworks with the EU and, you are suggesting, more globally.

Greg Clark: Globally, with our partners, who can contribute for their benefit and our benefit. That has been one of the positive features of the last few years.

Q28 **Rachel Maclean:** Secretary of State, many of us here represent constituencies outside London and the south-east. We are keenly aware of the productivity gap between that region and the areas we represent. That is reflected in possibly lower wages and maybe fewer opportunities, even given the context of the great employment record that we see in this Government. We are particularly keen to see the industrial strategy addressing this issue, because we know that in the UK this gap is larger than in other countries, as in productivity is seen as disproportionately higher in London and the south-east. The Department is stating that it will rely on a cost-benefit analysis to make sure that decision-making and regional investment is distributed effectively.

My concern and my worry is that, where areas are already slightly left behind—in Redditch, we do not have a lot of high-skill technology jobs already there—it is going to further disadvantage us in your local strategy. What are you going to do to look at that? I do not want to see all the investment going into places like Cambridge, where we already have a lot of high-tech skilled jobs, companies and world-leading universities. We need to somehow spread it out across the country.

Greg Clark: You are absolutely right in identifying the disparities across the country in terms of our productivity performance, which of course translates into earning power and earnings. The best way to improve the opportunities of the whole country is to close those gaps by moving up the performance of places that have lagged behind in some ways. It is important to say that this is a phenomenon that takes place within regions as well as outside. You will know that in the West Midlands we have some world-beating companies in terms of productivity, like JLR, JCB and others there. It is within regions as well as outside, but you raise a hugely important and acute point about the way that investment decisions are taken.

Let me give you two examples of this. Part of the increase in investment in science, research and development is explicitly to reinforce areas of strength outside the main hotspots of research and across the West Midlands. The West Midlands has a huge asset, which is its network of universities there.

Q29 **Rachel Maclean:** Will you be publishing how the investment is delivered regionally as well as nationally? A lot of these pots are national pots. The Business Bank, for example, is a national pot of money, so how can people outside London be sure that this investment will be spread across the country to places like the West Midlands, Worcestershire, et cetera?

Greg Clark: We will be publishing that and, in the case of the British Business Bank, one of the steps set out in the White Paper is to establish regional managers who can make those decisions locally.

On the particular question of cost-benefit analysis, that is a very important point. Traditionally, you are right that the cost-benefit analysis has looked at what economists refer to as the "comparative statics".

They assume that the economy is going to stay as it is and look at the respective value of investments. What the strategy commits us to—and this is a big change, a big new direction—is to look at the dynamic effects of investment. You and every member of this Committee know that there are investments that can take place that can transform the prospects of an area, and it is right to look at the prospective impact of those investments in changing the economy of the area. That is one insight that has come from our consultation: that we need to have that approach when it comes to regional and local investment.

Gareth, my director-general for research and innovation, might want to add to this.

Gareth Davies: One of the things I was struck by on coming into this role is how there is often a lot of focus on the "golden triangle", as it is talked about in science and research. Visiting universities, I was struck by how there is excellence right across the country. If I go back to my home town, Liverpool, there you have the School of Tropical Medicine, which is truly world-beating, incredible strength in logistics through the port and a really strong emerging data hub and data science. Part of the problem in the past has been that some of this has been hidden and areas have often been unable to be clear and have a trusted way of explaining exactly where their real strengths are, not just strengths comparative to the next town or city but their global strengths.

One of the things the Secretary of State commissioned was something called a science and innovation audit. Essentially, that gives every area a baseline ability to map where it is strong globally in terms of research. You can see that across the country, be it photonics around the Edinburgh region, motorsports, tropical medicine, as I have talked about, the strength in automotive and advanced engineering in the West Midlands or the AMRC in Sheffield.

They can use that then for two things: first, as a way in which they can anchor their long-term local industrial strategies and provide their plans for growth; secondly, critically, as a way of attracting inward investment. One of the most important things around this is that science, inward investment and the private sector go hand in hand. You can look, say, at some of the life sciences inward investment that has been announced this week. Partly that is due to the market in the UK, but it is also due to the strength of our life sciences research, again, in Cambridge, but also in Newcastle and Edinburgh.

Q30 **Rachel Maclean:** I welcome that and I appreciate that, but we must be mindful that there are places that do not have a university, Redditch for example.

On the ground, there is concern about some of the national pots, specifically on digital: for example, Tech City, which is a vehicle for investment into the West Midlands, the WMCA, the devolution deal. There is concern that that is simply a rebranding exercise; that it has been rebranded Tech Nation and local tech entrepreneurs from the Midlands are expected to just get on a train and go to London. Is that the case? Can you assure me that this is going to be genuine support where it is needed in the West Midlands region, not just, yet again, "Come down to Google campus in London"?

Claire Perry: This is a really vital point: the idea of how you embed this into places. We can talk about all the stuff at the top line, but what does it do for people on the ground? There are some things buried in what is a very lengthy document. For me, much of it is about connectivity around regions. We know we can have incredible campuses in Cambridge and yet people living in Wisbech cannot access them, because the train service is so rubbish. The £1.7 billion from the new Transforming Cities Fund is devoted to how to get people from Carlisle to Newcastle where the jobs are, or, indeed, how to get people around the West Midlands. As Gareth said, there are these incredible hubs of productivity, but they are not accessible.

For me, it is a lot about improving connection, but the hope is that the next stage will be almost local industrial strategies. Andy Street, the brilliant mayor in the West Midlands, is at the forefront of developing that and working across the Midlands, across political boundaries and with universities. That is a very good model, and a lot of it is LEP-led as well, to say, "We get that some bits of our region are good; some are bad. How do we join it all up and put it together in a compelling deal?" There is far more excellence out there than we sometimes realise, but how you join that up on the ground is the key challenge. There are proposals and funding to help with that.

Greg Clark: It is worth reflecting on the fact that this Committee and its predecessors scrutinising the Business Department have never had the opportunity to scrutinise policy in which place has such a prominent part in the work of this Department. One of the five pillars of our industrial strategy is, in exactly the way that Rachel described, the importance of local economies. That is a transformation. Some members of this Committee have had experience of Government policy over the years. For the Department for business and industry policy of the country to have place so central to it is a real breakthrough. We need to make it work, but I think it is working. As Claire said, the leadership that Andy Street and other mayors are providing, the success of the city deals and the growth deals have really turned the tide on this. For about 100 years, powers for economic revival and regeneration were flowing away from towns and cities towards the capital. Now we are going the other way and I hope this Committee will support that direction.

Chair: Yes. That was one of the criticisms of the previous Select Committee of the Green Paper, that there was not enough focus on place, so we welcome that inclusion and are keen to see it put into practice.

Q31 **Mark Pawsey:** Secretary of State, the sector deals are based on visible, exciting, high-tech parts of the economy, but only a relatively small number of people work in those. Most people's daily working existence is in the service sector in smaller businesses. You spoke a little about the service sector in terms of finance, but there are a lot of people in hospitality, tourism and retail. How does the strategy improve efficiency and productivity in those sectors?

Greg Clark: The sector deals provide a good means to do that and we expect to negotiate with each of those sectors. There are particular opportunities there to improve, for example, the level of skills, the use of technology. It would be wrong to conclude that these initial sector deals, which were, as Claire said, meant to be examples, do not have a big effect on some sections of the economy in which there have been low wages, for example.

Take social care. One of the big parts of the life sciences sector deal is in diagnostics. You might think that is all men and women in white coats in labs. Let me give you an example of that from a place that I visited in Liverpool called Sensor City. It is a collaboration between John Moores University and the University of Liverpool with the local enterprise partnership there. They have developed a sensor, a patch that goes on the arm of an older person. It is based on the fact that, as every carer knows, one big cause of infection that older people are subject to that requires hospitalisation is a urinary tract infection. This sensor, very unobtrusive on the arm, can send an alert to the carer that the person they are looking after is getting dehydrated. That can hugely improve the quality of life of the person who is being cared for.

Q32 **Mark Pawsey:** Many of us know about telecare, but if you take hospitality, for example, how do we improve the productivity of catering or services in the hotel sector? Those need lots of people, so what does this strategy do for them? How does it make that sector more efficient?

Greg Clark: They do. For example, in respect of big data and the transfer of new technologies, you are already seeing this in hospitality. There is a much greater use of technology that allows consumers directly to select the products and services they want. We are seeing that rolled out across the country already. If you check into many chain hotels these days, you have the opportunity to do so electronically, and that frees up the staff to provide more of a personal service. Making sure that there is a transfer of technology to these sectors is one of the parts that we are talking to sectors, including hospitality, about.

Claire Perry: On Monday, I went out and helped launch the new Stansted Airport campus from Harlow College, which is directly focused on exactly the set you are talking about. Stansted Airport is the east of England's biggest employer; it has huge staffing and skills shortages in areas like hospitality, logistics and maintenance. The new college partnership will be an opportunity to train those people on site.

I will just mention food and drink, which is a sector where everybody, apart from Westminster, has a food and drink manufacturer and a very long tail of low productivity. Before the sector deal process that sector had never talked to itself as a sector. They had never worked out collectively what the challenges were that they all faced. They are doing that now. We are working closely with them. We are trying to understand how they and we can come together to solve those challenges. This process is getting sectors, which may never have had a conversation with their members, to ask what they need over the long term to improve their productivity. That is quite exciting.

Q33 **Mark Pawsey:** Can I move on to small businesses and the proficiency of management in small businesses? Often, small businesses are started by a skilled tradesman who wants to go off on his own; he is good and he knows what his business is about, but he has never had any business or management experience. What does the strategy do to improve the competence, the management skills of the very large number of small businesses that we have?

Greg Clark: It is very relevant to the long tail discussion that we have had this morning to look at why some small businesses in this country do not grow into large and more highly productive businesses, as they do in some other countries. There are a number of reasons for that. One is access to finance, and we have touched on that briefly, but the other is management skills. One thing that we are working on with the universities, colleges and the growth hubs that are going to be reinforced across the country is to make available not just the technical training of employees but management education for those managers who are going from a small business to a large business.

Q34 **Mark Pawsey:** How do we make sure those managers take up those opportunities? I ran a small business, but I was always too busy to go on the training course that would enable my business to be managed more efficiently. How do we get that across?

Greg Clark: I hope the Committee might take evidence from Mr Charlie Mayfield, whose initiative Be the Business, which the Government are backing with funding, is precisely designed for that. There is another aspect of it. Members of the Committee will know that there is a benefit of clusters where businesses can co-locate with people who are often in the same sector, going through the same challenges, and can learn from each other rather than being isolated. One of the features of the strategy is clusters, but management education and making it available to businesses in a much clearer way than ever before is one of the parts of this. Charlie Mayfield’s work is important.

Q35 **Mark Pawsey:** I will finish with the investment in productivity. The OBR tells us that the National Productivity Investment Fund, while it has increased to £31 billion, does not increase beyond 2018. There is no additional funding. If we are so motivated to improve productivity, why is the budget remaining stable?

Greg Clark: The Chancellor allocated an extra year on that. That was the initial allocation and he has allocated an extra year.

Q36 **Mark Pawsey:** It does not increase though.

Greg Clark: It does. In terms of, for example, the research and development component of it, there has been a real terms increase. For most of the last few years, it was an achievement to defend it as flat cash. That is increasing substantially.

Claire Perry: That is the public sector spend. One thing that I have learned through this is that, historically, companies have come to government, had a conversation and said, "If you do this, we will do that". It has not always been clear that the R&D the Government are funding is for things that companies would not have done themselves. One of the big focuses in the sector deals is that this is not about doing what companies will not do; it is about what companies cannot do or where there is real benefit in collaborating. I have been really impressed, and the examples we have used are ones where the sector collectively has worked out how it is going to fund R&D, real skills, proper training with numbers of people it wants to graduate through programmes. To me, it is great that we have the public sector increase in productivity investment. We now need to ensure that for the private sector, because we know our private sector R&D spend can lag, in some industries, behind international averages.

Greg Clark: To reflect again on this, in 10 months from the publication of the Green Paper, which was a set of proposals for discussion, to have during the consultation process such a substantial discussion about place, not previously possible, and about sector deals, the term of which was not known before we published the Green Paper, with industries right across the economy coming together and thinking about how they can work with each other and with the Government, shows the real enthusiasm and the appetite that has been sparked by this process, which we have deliberately proceeded with in a way that brings people together.

Q37 **Chair:** Secretary of State, you made a commitment in answer to Rachel Maclean's questions to publish a regional breakdown. Will you also publish where money from the National Productivity Investment Fund goes regionally, so we can see that and see the focus that has on place?

Greg Clark: Certainly, yes. One of the reasons for setting up this industrial strategy council is to provide much more information. In fact, we have a big section on how we want to be the economy in the world that has the most information on it, so that we can learn from that. If you are as attached as we are to big data, that should be available for all our areas of policy.

Q38 **Chair:** Thank you very much. We appreciate that. Moving on now to

Brexit, this is an area where information is also key to good decision-making and holding government to account. Of the 58 sectoral analyses of the impact of Brexit, which ones did your Department produce?

Greg Clark: Perhaps the Permanent Secretary can give an overview of that.

Alex Chisholm: We have been involved in helping the Department for Exiting the EU to produce those reports.

Q39 **Chair:** When did you start that work, Mr Chisholm?

Alex Chisholm: It was pretty much the day after the referendum. We have been working away intensely throughout that period with the sectors we have particular responsibility for. Those are 16 sectors of the total.

Q40 **Chair:** Perhaps you could let us know which ones those are, but I presume the ones that this strategy is looking at—nuclear, pharmaceuticals, automotive, aerospace, food and drink, although I am not sure that is covered—are all being done by the Department for BEIS.

Alex Chisholm: The first four that you mentioned—life sciences, civil nuclear, aerospace and auto—are. As you correctly say, food and drink is a Defra responsibility.

Q41 **Chair:** You did the initial work, did you, Mr Chisholm, on those 16 different areas and then passed them on to DExEU? Did it work in a different way?

Alex Chisholm: It has been an iterative process and has not relied only on work within government; we have relied heavily also on business engagement and reports available in the public domain.

Q42 **Chair:** The Secretary of State for Exiting the European Union announced that there were these 58 studies. There was then a discussion about whether those would be published. As to the decision to redact part of those reports before handing them over to the Select Committee for Exiting the European Union, what was redacted, by whom and why?

Alex Chisholm: The process for agreeing with Parliament what information is handed over is something that the Secretary of State for Exiting the European Union is leading on. What he and other Ministers in DExEU have said to Parliament, so far, has been that information that is sensitive both to companies and to the UK negotiation position should be redacted. I am also informed that just yesterday, in response to a UQ, a DExEU minister told the House that his Department has initiated discussions with the parliamentary authorities to make information available to colleagues through a reading room. As I understand it, at this stage, the information has only been given to that other committee.

Q43 **Chair:** Were you involved, Mr Chisholm, in the decisions to redact part of that report or was it the Department for Exiting the European Union that made those decisions?

Alex Chisholm: The Department for Exiting the EU leads on all the co-ordination of this information.

Q44 **Chair:** You provided the reports and probably did the bulk of the work, given the expertise is in your area, but then the decisions about the redactions were done by the Department for Exiting the EU. Yes.

Do you think, Secretary of State, that this Select Committee should have access to that information for the inquiries that we are doing at the moment? As you said at the beginning, you have been very supportive of our work and I have appreciated that, as Chair of this Committee. As you know, we are doing inquiries on the impact of Brexit. We have been calling people in to take evidence from them. We have been to Brussels to hear evidence. During the course of this, we have always hoped and, actually, assumed that we would have access to that information. I am now not sure whether we will. Do you think that we should have access to that information?

Greg Clark: I think you would agree that, in terms of our responsiveness to the Committee in providing information on the sectors with which we engage, we have been very active in that engagement. We have provided reports and you have been taking evidence from many of the sectors. It is important to reflect on and respect the fact that we are in an important negotiation. The European Union is operating in a disciplined way, in which Mr Barnier and his negotiating team are the people through which the entire rest of the EU's position is co-ordinated, and we have to reflect that in our arrangements.

It is right that the Secretary of State for Exiting the EU should be the person, obviously with the Prime Minister, who leads those negotiations and makes a judgment, in all our interests, as to what information should be disclosed and when, given this is a live negotiation and really important. The European Council next month is a particularly important one. It is right that we should take a judgment as to how we can make sure we have the best position going into that.

Q45 **Chair:** Do you think that there is anything in the redacted analyses that would damage our negotiations if this Select Committee were to see it? You have seen all of these, I assume. Have you seen them all, Secretary of State?

Greg Clark: I will explain. As the Permanent Secretary said, this is an iterative process. We have provided information that has then been shared backwards and forwards with us and across Whitehall. It is not that there is a particular set of documents.

Q46 **Chair:** There is a particular set of documents, is there not, because they have gone to the Committee on Exiting the European Union?

Greg Clark: The set of documents that has been provided to the DExEU Select Committee by the Secretary of State is a summary of the evidence in each of those sectors that has been drawn together. Of all the engagements that we have with the business sectors and the business community, we are in receipt of information that is sometimes commercially confidential. Sometimes, in terms of informing our negotiating position with the rest of the European Union, we want to maintain the confidentiality of that. I think the Committee would expect that to be the case.

Q47 **Chair:** Yes, and during the inquiries that we have conducted on aerospace and automotive we have taken some evidence in private, which of course all members of this Select Committee have treated in the manner in which it was given to us. I am wondering whether there is any way that you could provide this Committee with information that would help us in our inquiry, which we would respect the confidentiality of. Is there is any point in us trying to get this evidence in the redacted form? Will it tell us anything that we do not know or is it information that this Select Committee will have heard in evidence anyway from businesses?

Greg Clark: As you know, I am always willing to help the Committee. That is necessary in order to benefit from the advice of the Committee and we can talk about ways to do that. We provided evidence for the Committee's inquiry. You have the very important and valuable opportunity to interview witnesses from different sectors, form your view and give your advice on that. I am always very willing to help with that, but it is important that across government we should exercise discipline. We have a Department for Exiting the EU; we have a Secretary of State who is responsible for that. We have talked before and it has been much debated about whether a sector-by-sector approach should be taken to negotiations.

I think you would accept, Chair, that having a Department-by-Department approach to negotiations is not the right one. We need to reflect what our counterparties at the negotiation are doing, which is to observe the discipline of proceeding through the relevant Department and the relevant lead negotiator, and to make sure that the information we disclose does not, in any way, disadvantage us in those negotiations. You have to have a judgment that the Secretary of State needs to make on it.

Q48 **Chair:** It is interesting that car manufacturers and businesses in the aerospace sector are willing to trust Members of Parliament and members of this Select Committee with confidential analysis on the impact of Brexit, and yet the Government and your Department are not allowing us to see that information. We have treated the information we have received from the car manufacturing sector in confidence where it has been provided in that way, and we would treat anything that we got from government in that way. I would have thought that government would be able to trust parliamentarians to treat things in confidence if that is the way in which they are given to us.

Greg Clark: That is a little unfair, Chair, in terms of the information that we have provided to this Committee. We have not had any disagreement about the evidence that we provided in person and in writing. You are right that you have the opportunity to summon witnesses from across the economy. I think that you have access to the information that you need to make your assessment and give your advice to the Government.

Q49 **Chair:** We have had a lot of information from the businesses we have called in, but we have not seen the Government's analysis, in either redacted or unredacted form. Is that something you would be willing to give to us in a confidential manner, where we could look at it and not, perhaps, take it out of the room, to test it against what we have heard in hearings we have had over the last few weeks? Would that be something you would be willing to do?

Greg Clark: I have provided evidence to this Committee. My Permanent Secretary has provided briefing documents on the sectors to the Committee, which I think the Committee would regard as being serious and accurate pieces of work. You have taken evidence. I am very happy to continue doing that, but I come back to the point. As I say, I am very happy, in public or private, to have conversations and sessions with the Committee, but in terms of our overall position on negotiating our exit arrangements with the European Union, we have to be disciplined. We have a Government Department that is there not only to lead but to bring together the whole of government, so that we speak with a single voice. It would not be in our national interest to seek to subvert that and do things in anything other than a disciplined way.

Chair: Okay, I will move on.

Q50 **Peter Kyle:** The reason this is important to us is because we are clearly meeting many of the same people as you are, meeting the same sectors as you are, probably getting the same information out of them as you are. We are not getting a sense of how you are analysing, interpreting and feeding that into the negotiation stance that Britain has. Many of the people who have given evidence to us have said that you have been very receptive, as a Department, and very communicative verbally, but nothing comes back to them in terms of how their input is being interpreted and feeding into the negotiating practice. We do not know whether the interpretation and analysis that we get from people who give evidence to us is being interpreted differently from you. If we find out afterwards, after we have left, that we have had very different stances, it is too late for us to make an impact. Do you understand why we are drilling down into this issue?

Greg Clark: Let me give you an example of that. You have taken evidence, and I have been very clear in reflecting that the businesses that I speak to up and down the country have talked about the importance of an implementation period. They have said that to you;

they have said it to me. One of my and the Committee's roles is to take the evidence that we are given and to use it in our collective discussions to inform the development of our policy. Before the summer, that was an important focus of attention. Every single week, in fact normally at the time we are meeting now, I meet with the five biggest business representative organisations. They communicate to me and I obviously meet with all sorts of different sectors, as my colleagues do. They made it very clear that the importance of an implementation period was very great.

In the Florence speech, you saw the Prime Minister make a commitment to seek an implementation period that every business organisation would reflect was certainly in line, if I can put it that way, with what they requested. I do not think there is any doubt that the information we glean from our conversations is being used to inform our position.

Q51 **Peter Kyle:** That is absolutely right. Incidentally, some aspects of the Florence speech have not been reinforced by Brexit Ministers on the Floor of the Chamber through the withdrawal Bill process, which is why there is some tension. We are talking about businesses, in the case of EDF, for example, that are investing £19.2 billion into Britain. They expect Parliament to play its role in scrutinising this to the absolute full. Sometimes it is very difficult to do so through this particular process.

Moving forward, which one of the sectors that the Chair has mentioned and is mentioned in the sectoral deals here do you feel will be most adversely effected if Britain were to leave without a deal?

Greg Clark: The first thing to say is that the purpose of this—

Peter Kyle: Do not say the first thing; say the second thing. Tell me the sectors.

Greg Clark: The purpose of the engagement with businesses is to inform our negotiating position so that we can get the best possible deal, not just, in headline terms, those things that appear on the front pages of newspapers, but by understanding the detail. As to the idea that there is an exercise in ranking the sectors one against the other, that is not the approach.

Q52 **Peter Kyle:** That is not what I have asked you to do. If when we leave, we leave the single market and the customs union overnight with no deal and no transition deal afterwards, some sectors will be devastated. Are you aware of which sectors those will be and are you making plans to support them in that eventuality?

Greg Clark: The evidence that I receive, like the evidence that you receive, makes it very clear that sectors with supply chains that cross frontiers more than most depend a lot on an outcome of the negotiations that facilitates that and allows it to continue to flourish in future. That is obviously the case. It is why our role is to make sure that not just those views but that evidence is available to our colleagues.

Q53 **Peter Kyle:** You are not even going to let the sectors that know they are in that category know that you know they are in that category. You are not going to say that you at least share their pain.

Greg Clark: I do not think you could have a more active and engaged ministerial team than you have here.

Q54 **Peter Kyle:** Do you agree with David Davis when he said that you should not put politics above prosperity?

Greg Clark: Of course politics cannot be above prosperity. The whole reason that we are in public life is to improve the prospects of the country.

Q55 **Peter Kyle:** Let me put it to you then about Euratom. We are going to leave Euratom. The sole reason we are leaving Euratom is the principle of ECJ oversight. Since 1956, the ECJ has never once had any verdict or any cases brought to it about Euratom. Is that not just putting politics about prosperity?

Greg Clark: I think you have had a session with Richard Harrington.

Q56 **Peter Kyle:** Is it not, in your view?

Greg Clark: It is not. I was not at the session, but I imagine that Richard would have explained that, in the view of the European Commission as well as us, triggering Article 50 involves leaving Euratom. That is a matter of legal consequence.

Peter Kyle: I am only trying to apply the principles set out by the Brexit Secretary.

Greg Clark: It is wrong to characterise a principled, serious and sober approach as, in some way, political. That is not the case.

Peter Kyle: Honda's evidence to us last week—

Greg Clark: That is not the way that I take decisions; it is not the way that I run this Department. On Euratom, our nuclear industry is very important and the way that we are proceeding with this, as this Committee knows from—

Peter Kyle: The French nuclear industry is important to us as well.

Greg Clark: The fact that we have a Nuclear Safeguards Bill being brought forward to make sure that we are well prepared shows the seriousness of this, and it is not to be reduced to—

Q57 **Peter Kyle:** We have had evidence from many of your predecessors: Lord Heseltine, Lord Mandelson, Vince Cable. They all came to the same conclusion that, if we leave the EU without a deal, no industrial strategy would be able to—and it would be nice if we could hear directly from you, Secretary of State, rather than any whispers into your ear—provide enough positives to overcome the negatives. Do you share that analysis?

Greg Clark: I work night and day to make sure that we get the best possible deal for this country, and to make sure that the prospects for this economy are as good as they can be. That is not just about Brexit; it is making sure that we address some of the challenges that we have and some of the opportunities. Everything that I and my team do, and no one could deny the energy and commitment we bring to it, is to give us a good future.

Peter Kyle: Nobody is denying that.

Greg Clark: Of course there are challenges that the industrial strategy has set out. There are challenges in the negotiations that we need to overcome to achieve an important and flourishing deal. I am absolutely convinced from all of my discussions that that is not only possible, but that it is hugely in the interests of all of us in the European Union. Pursuing it with vigour and energy, but also with discipline, is the best way to accomplish that.

Claire Perry: May I share what I was whispering? The Secretary of State is too polite to say it. There are all sorts of people, who are not elected currently to deliver the biggest negotiation this country has faced in peacetime, who like to commentate all the time. Some of them, unfortunately, sit on Select Committees. This Government and all Members of Parliament have a responsibility to deliver a deal.

Q58 **Peter Kyle:** This is parliamentary scrutiny. This is parliamentary scrutiny of the work your Government is doing.

Claire Perry: You are asking us to comment on comments made by people who do not represent constituents at this time.

Peter Kyle: If you do not answer the question directly then how can we scrutinise? That is an outrageous thing to say. It is an absolutely outrageous thing to say.

Claire Perry: I think it is outrageous to listen to talking heads like Peter Mandelson.

Albert Owen: They are Members of Parliament.

Chair: We will move on, but the role of the Committee is to scrutinise Government policy. We all want the industrial strategy to succeed and we all want a good deal from exiting the European Union. They are, especially the issue of exiting the European Union, very controversial, and our constituents will have very different and heated views, but we all want you to succeed and we do not doubt how hard you are working.

Greg Clark: I know you do not, Chair.

Peter Kyle: None of us doubt it.

Chair: But the environment that we are in is a challenging one. We will move on now.

Q59 **Mark Pawsey:** On the important questions that Peter Kyle and the Chair have put, we have had some evidence. For example, WTO rules would mean around £1,800, we are told, on the cost of an average imported car to consumers; tariffs could be higher than 100% on many food and drink products. What is the consequence of that for those key UK sectors? Can they remain competitive if that comes to pass?

Greg Clark: I will ask Gareth to respond.

Gareth Davies: Let us step back in terms of what we are doing at the moment. I and my team are working with the key leading auto manufacturers, some of which you saw at previous evidence sessions, to understand the impact, to get the granularity of the impact. As you saw in the evidence from Honda and Aston Martin, this will vary between different industrial producers. Around 50% of exports are to the EU, but there is a significant portion to the rest of the world. The way in which tariffs play out will depend on, frankly, the price positioning of those cars and the way in which they will export. For instance, in the Aston Martin example you heard, they are probably less price sensitive than, say, the Honda Civic price market, so there will be a different impact in different sectors. The critical point here, as we compile the information and the analysis to inform the overall negotiations, is to make sure we have that level of granularity.

Q60 **Vernon Coaker:** Does that mean they can remain internationally competitive in a WTO scenario or not?

Gareth Davies: The key thing facing all industry at the moment is the uncertainty about our future relationships with Europe. The Government have said very clearly that they want a deep and special partnership. They want free and frictionless access. That is the goal.

Vernon Coaker: Nobody is going to say they do not want that.

Gareth Davies: Then we need to understand what exactly the impact will be and how to offset it. If you look at, say, what Nissan is doing in Sunderland with its recent announcement of investment in both the Qashqai and the X-Trail, it is looking to increase the domestic supply chains. There is an overall plan for about a £1 billion increase in the supply chains, which obviously will change the nature of the operating economics. Similarly, if you look at the auto industry, this has been a critical part of the Automotive Investment Organisation and underpins a lot of the work we have been doing on sector deals. The domestic content of the auto industry has already increased from around 36% at the start of the millennium to about 44% now. As you can see, it is very hard to take a static analysis of what these impacts will be. We need to look at this in a dynamic context of how the industry, its supply chain and its access to talent will unfold.

Q61 **Vernon Coaker:** So we are clear, in answer to the questions we have had, is the Department for BEIS preparing in the documents that have been presented for a no deal scenario?

Gareth Davies: We are looking at all potential scenarios.

Q62 **Vernon Coaker:** So you are looking at the possibility.

Gareth Davies: Can I just clarify?

Q63 **Vernon Coaker:** Yes, but we need to know whether you are preparing for a no deal scenario as one of the options that you are presenting to the Secretary of State for Exiting the European Union.

Gareth Davies: We are working closely with all businesses to understand the consequences of all potential outcomes.

Q64 **Vernon Coaker:** Is that yes?

Gareth Davies: Then, through that, we are working to understand the consequences.

Q65 **Vernon Coaker:** So yes.

Gareth Davies: Yes.

Q66 **Vernon Coaker**: Yes, right, so you are. Secretary of State, what are you saying to your Cabinet colleagues about some of the consequences, whether in the redacted or unredacted versions, of a no deal, which you are having to prepare for because you cannot be certain we will end up with a deal? What are you saying to them about the consequences of a no deal scenario, given the evidence that we have had from virtually everyone about the, by and large, dire consequences, it is fair to say, from the majority of people, if we leave without a deal?

Greg Clark: You would expect that, through our dialogue with the industries, we reflect and we share all the different pieces of advice we get. It is part of the reason that you have sponsorship of industries via Government Departments, so that you have that close relationship. It is very clear that we recognise completely the need to get a good deal that allows us to continue our present ability to trade not only final products but the components that come backwards and forwards. That is very clear; you have heard it in evidence; it is reflected in what the sectors say to me. As you would expect, our responsibility is to make sure that is completely understood and is reflected in our collective negotiating position. That is what I do.

Q67 **Vernon Coaker:** Interpreting what you are saying, you are having to prepare for no deal, but you are—

Greg Clark: No, that is the wrong—

Q68 **Vernon Coaker:** You are having, as one of the options, to prepare for no deal.

Greg Clark: That is the wrong construction to put on it. Of course, in discussions with the sector we need to know in detail what its requirements are. You would expect a professional Department to understand all the different requirements. I am optimistic that we will be able to achieve a successful outcome. We contribute to the discussions that, as I was saying earlier, result in an agreed collective position on the part of the Government as to what we should be negotiating in the discussions that are taking place. That is being deployed and that is the role that we play.

Q69 **Vernon Coaker:** Fine, but I just state, from what Mr Davies was saying, that one of the options—I was not saying it was the only option—that you would have to prepare for is that there is no deal and tariffs come in under WTO rules.

Moving away from tariffs, we have heard also about the severe difficulties that there would be for our businesses and industry from non-tariff issues at the border. HMRC has said some pretty strong things and is replacing the current customs handling of import and export freight, as you know, with a new customs declarations service going live in January 2019, where traders have to make a declaration if they are importing from or exporting to countries outside the EU. It has estimated that those customs declarations could increase from the current 55 million to about 255 million each year once the UK is out of the customs union and traders have to make such a declaration of that. The Port of Dover currently processes up to 10,000 freight vehicles every day. We have heard a lot of evidence about delays with that. What assessment have you made about the impact of any of this additional border friction on the competitiveness of our businesses?

Greg Clark: I will ask the Permanent Secretary to come in, but you have taken evidence from people who use our ports—

Vernon Coaker: That was HMRC.

Greg Clark: That was HMRC but, in turn, that is informed by many of the freight—

Vernon Coaker: It is still a fairly important body.

Greg Clark: Yes, absolutely. The responsibility that we discharge is to make sure that is known as part of the negotiations. Alex, do you want to talk about HMRC?

Alex Chisholm: Yes. First, that is HMRC's best estimate and we do not try to second-guess that; it is the leading authority on this. What we have taken from the evidence that we have heard from business—I know you have taken evidence, in particular from the auto sector and aerospace—is that low friction access to EU markets is a very important component of the deal that we are looking to get. That is something that you saw was very clearly reflected in the Prime Minister's speech in Florence.

I can bring out, if it would be helpful, some of the other elements that you have—

Q70 **Vernon Coaker:** Can I just stick on that? It is the Government's policy to be outside the customs union. That is what they want to do, so the estimate is that, as a consequence of that, HMRC are saying that potentially you go from 55 million to about 255 million customs declarations or checks each year. That is massive. Who is going to do that? In HMRC, the electronic systems to do that are not tested. It does not know if they can work or not. How is the border going to operate in that situation? Take Dover or an airport. What about the Irish border?

Alex Chisholm: The plan is to have a fully tested system live, as you heard from HMRC, by January 2019

Q71 **Vernon Coaker:** It is not there at the moment.

Alex Chisholm: No.

Q72 **Antoinette Sandbach:** I would like to go back to the 58 documents. Secretary of State, can you confirm that it is standard practice in a Department, and has been since the Freedom of Information Act was introduced in the year 2000, that active policy considerations, discussions and documents that influence current policy are exempt from disclosure under the Freedom of Information Act, whether or not it is a Member of Parliament who asks for it or any other member of the public? Is that a policy that your Department applies?

Greg Clark: All Government Departments apply the Freedom of Information Act rigorously.

Q73 **Antoinette Sandbach:** If there have been suggestions by people on this Committee that it would be appropriate to disclose that information when it is, in law, as statute, exempt from disclosure precisely because of the reasons that it may prejudice Government policy and negotiations, would you agree that that is the reason for that exemption and why it is so important that it is upheld?

Greg Clark: I agree with that. It is important. Parliament, of course, has an essential responsibility to scrutinise the Government and to present evidence that it draws from its inquiries. When we are in a hugely important negotiation and when we have a Department of Government established and a Secretary of State appointed to lead that negotiation, of course we have to be able to collectively discuss and prepare for those negotiations. Not to be able to prepare for them, and to share information and to discuss it, would mean that we were disadvantaged and that would be against the national interest.

Q74 **Antoinette Sandbach:** You have heard that we have had evidence confidentially, and I am sure the Department has had evidence that it has given undertakings to keep confidential to those disclosing it. We have had public evidence from a number of sectors saying that they do not want double certification and that, at present, we have global certification systems that benefit UK business. Are you looking at or actively advocating for maintaining full regulatory equivalence and mutual recognition of standards, in order to enjoy that frictionless trade with the EU?

Greg Clark: Again, the ability to operate across borders owes a lot to the regulatory aspect, as well as having a regime free of tariffs and other frictions. Just as you have taken evidence that emphasises the importance of that, so have I. In terms of informing our negotiating position, in exactly the way that you described at the beginning of your questions, that is what we do, and we convey that.

Alex Chisholm: In relation to regulatory arrangements, we start with identical sets of systems and rules, so it is much easier from a starting point. When talking to businesses and the regulatory institutions, we have been able to see there is a number of ways in which we could achieve this, as you put it, "low friction" way of dealing in future. It could be through active participation, harmonisation, mutual recognition or an observer status. There are a number of ways to achieve our aims there. As a key part of the negotiation, we will need to deal with not just how we start but how we would have a managed process for dealing with any future diversions.

Q75 **Antoinette Sandbach:** Can I take you on to EASA? Airbus gave us evidence that we do not want double certification. The evidence that we had is that to replicate EASA functions would take five to 10 years, cost an estimated £30 million per annum and going it alone would be the most expensive option, whereas we could potentially pay £4.5 million, which is our current cost of being in EASA. Where are you looking to build on that, to continue to participate in EASA or, if possible, for example, to have associate membership through Euratom or other bodies, where we do not have an issue around regulatory equivalence?

Greg Clark: That is a very good example of where it should be possible to negotiate different arrangements. In talking to the aviation and aerospace sector, there is great recognition that the standards of certification have worked well; they give confidence. It is, in my judgment, clear from the evidence that we have had that it is not just UK-based companies that think that, but continental-based companies think that as well. As part of our negotiating remit, we reflect that in the discussions that we are having. As we have just discussed, it is right that the approach we take is collectively agreed and is deployed by the Secretary of State, but it benefits from that knowledge that we have.

Q76 **Antoinette Sandbach:** For example, there may be some who make a big song and dance about the UK becoming a rule-taker in order to secure access to the single market. Is it not the reality that we are rule-takers, in any event, in a global market in particular areas, and that we are rule-influencers in that global market because there are global regulatory standards?

Greg Clark: More than that, we are leaders in the setting of rules and regulations around the world, which comes back to our industrial strategy. One of the areas of strength that we have is in setting global standards, not because we have, in many cases, a particular right to dictate the global rules, but because the quality of our science and technical expertise commands the respect of the world. That is a good example of how we can look forward to continuing to play a very leading role in that in a number of sectors. Life sciences is another.

Q77 **Antoinette Sandbach:** Secretary of State, how are you trying to ensure in the negotiations that we preserve Britain's ability to influence rules that benefit both us and our EU partners at present? Would leaving the EU compromise that to a substantial extent?

Greg Clark: There is a benefit and a clear mutual interest for everyone in having a settlement and a solution in which we can continue to guide the setting of technical standards and rules where there are opportunities to do so. This is not necessarily the headline part of the negotiations, but it is an important part of them. Through making sure that that is understood by our negotiating team and that the reciprocal interest on the part of European countries is recognised, we hope that that can be very satisfactorily resolved in the discussions that we have.

Q78 **Albert Owen:** In the evidence we have received from automotive and aerospace, they have been concerned about the movement of people post Brexit, particularly engineers moving at very short notice where they have plants in four different countries. You realise the importance of this, and it is not just the high skills; it is low skills as well. What are you doing to reassure people who are here and to retain their skills? What plans do you have, post Brexit, for the movement of people in these important industries, which are located in the UK and other EU countries?

Greg Clark: And all round the world.

Albert Owen: Yes, but dealing specifically with Brexit.

Greg Clark: I understand. First, as you know, the Prime Minister has been emphatic that one of the agreements that we want to reach as early as possible is on the rights of our mutual citizens in the EU and the UK. I hope it will be possible to achieve that agreement, because it will give great confidence and reassurance to the people who work here and British citizens overseas, who are a hugely valued and important part of our economy. Their work contributes massively to the success of many of the industries that we have been talking about, so they are welcome; they are valued; they are part of, in many cases, our success story.

That leads us on to the future. We have been very clear and the industrial strategy is absolutely emphatic that the future of competitive industries is that they are international. Ideas do not recognise boundaries. The people who are needed in sectors across the economy have to be able to come from around the world, to contribute, to work and, in many cases, to lead our industries. We must recognise that. I do not know how members of the Committee participated in the referendum on leaving the European Union, but I would observe that I do not think any part of the debate about leaving the European Union was that we should cut down on the number of top scientists or skilled engineers who are coming to work in global industries. In fact, I would say the opposite. In our manifesto, as is reflected in the industrial strategy, we have a policy to increase the ability of, for example, international scientists to come and work here.

Q79 **Albert Owen:** Some of our parliamentary colleagues were not as measured and balanced as you and I on that.

Greg Clark: This is a real area of common ground, I must say.

Albert Owen: I am complimenting you.

Chair: Take the compliment, Secretary of State.

Greg Clark: Whatever side you were on in the referendum, the importance of people of talent in this country, our own as well as people who work with them, is fundamental.

Chair: Thank you. As you know, Secretary of State, we published our first report, jointly with the Work and Pensions Select Committee, in response to Matthew Taylor's report, *Good Work*. We have a few questions to ask you on that.

Q80 **Stephen Kerr:** When are the Government going to respond to the Taylor report?

Greg Clark: It is a very thorough report and we will respond very shortly. You will not have long to wait. If I could, yet again, draw your attention to the industrial strategy, I have taken the opportunity, perhaps cheekily, to give a pre-emptive response welcoming the Taylor approach. I did that deliberately, because I regard Matthew Taylor's approach as being completely resonant with our industrial strategy. If we are going to be prominent in taking advantage of new technologies and new sectors, we need to think ahead about the right regulatory regime and the implications that that has. We are the first country in the world to have deliberately, proactively done a piece of work—Matthew and his team have done the work—looking at how policy needs to accommodate the new economy in order to prosper from it.

I have said in the industrial strategy that we accept the very important principles of good work that he has set out; that I, as Secretary of State, and my Department will take responsibility for implementing them and, therefore, this gives a role to this Select Committee; that there is an opportunity through the sector deals to embed some of those principles of good work now. But we will make our full response to Matthew Taylor's report very shortly.

Q81 **Stephen Kerr:** Did the Government miss an opportunity at the Budget to do something about businesses with business models that minimise the rights of those who work in their businesses and that minimise their tax contributions?

Greg Clark: It is a question of sequencing. We should respond to the report fully and reflect on the Committee's view. That is what we are going to do. Matthew and his team spent nearly a year working on the report. It is a seminal report; I think it will be referred to for many years to come. It is right to respond wholeheartedly to every aspect of it.

Q82 **Chair:** Thank you. I welcome what you say, Secretary of State, about trying to incorporate into the sector deals better ways of working. I would agree with you that to boost productivity we need better engagement of people who work in businesses, so that they contribute to the productivity plan and better ways of working. I think we would all agree with that.

Along with that joint report of our two Select Committees, we published a number of draft clauses that could be taken forward either in primary legislation or, some of them, through secondary legislation. Will there be any time in the parliamentary schedule, which, as we all know, is pretty busy at the moment, to take forward legislation? Obviously, Matthew Taylor has given his report; you have welcomed it; Minister Margot James has welcomed it; the Prime Minister has welcomed it. Will there be a priority to legislate in this session on these issues? If not, could some of it be taken forward through secondary legislation or might time be made, as the Right Honourable Member for Birkenhead has suggested, to allow the Select Committees themselves, in some way, to take through a Bill in this area? We have provided the draft clauses, and it has cross-party support from all the main parties in the House and all members of this Committee.

Greg Clark: First, we need to respond to Matthew Taylor and we need to respond to the joint Committees' report.

Chair: Do not let that hold you up.

Greg Clark: I know that a sense of pace is important, but you have published the report; the Government need to respond to it. We have had discussions on other matters about parliamentary time. I, of course, want to get our team's Bills and legislation in there. I am not in a position to guarantee that. I am not the Leader of the House. I do not control the parliamentary business, but where action needs to be taken that involves legislation it will, of course, have my support. The support of both Committees, I dare say, might prove persuasive.

Q83 **Chair:** Yes, and one thing we are keen to do, as a Committee, as you said at the beginning, Secretary of State, is to work with you and to try to build cross-party consensus in a Parliament of minority Government. We are keen to work with you to find cross-party support, where that is possible.

Q84 **Mark Pawsey:** Secretary of State, there is no point in having legislation if it is not enforced. We heard from Sir David Metcalf, who is the director of labour market enforcement, that he is able to react to issues that are brought to his attention, but believes there might be some benefit in having a look at certain sectors and geographical areas. Are there any sectors and geographical areas that concern you? Are you happy that his department is adequately resourced?

Greg Clark: You and he are right to say that it is critical to enforce measures that you have; otherwise people will get the idea that they are optional rather than essential. My colleague Margot James is absolutely passionate about the adherence to these high standards. You might want to take evidence from her about particular sectors. She leads on that, but she shares the implication of your view that we need to be vigorous in making sure that these standards are applied and obeyed.

Alex Chisholm: I can help on the resources question, because the Government have increased HMRC's enforcement budget to a record level of £25 million for 2017-18. That is an increase from £13.2 million in 2015-16, so more or less doubled. HMRC now follows up every worker complaint it receives and is increasingly proactive, which is obviously very important to this element. The Government have also increased the maximum penalty imposed on an employer. In 2016, the penalty doubled to 200% of arrears owed to workers, up to a maximum of £20,000 per worker. Our Department has been very active in naming and shaming. We name in more than 95% of cases and we find that is effective. Overall, that is indicative of both the resources going into this area and the efforts being made by our Department and HMRC to pursue that.

Chair: Thank you very much, Secretary of State, Minister Claire Perry, Alex Chisholm and Gareth Davies. We look forward to working with you and to holding you to account through the rest of this Parliament. Thank you.

Greg Clark: Thank you very much, Chair.

Claire Perry: Thank you.