HOUSE OF COMMONS

Business, Energy and Industrial Strategy Committee

Oral evidence: Leaving the EU: Implications for the Processed Food and Drink Industry, HC 381

Wednesday 13 December 2017

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Watch the meeting

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

Questions 1-91

Witnesses

I: Andrew Kuyk, Director General, Provision Trade Federation; Kate Nicholls, Chief Executive Officer, Association of Licensed Multiple Retailers; and Ian Wright, Director General, Food and Drink Federation.

II: Tim Martin, Chairman, JD Wetherspoon; Dan Mobley, Corporate Relations Director, Diageo; and Ian Rayson, Corporate Affairs Director, Nestlé.

Written evidence from witnesses:

- Food and Drink Federation - written evidence

Examination of witnesses

Witnesses: Andrew Kuyk, Kate Nicholls and Ian Wright.

Q1 **Chair:** Thank you very much for coming to give evidence to our Select Committee about the impact of leaving the European Union on the processed food and drink sector. It would be good if you just introduced yourselves for the record, and then I am keen to crack on with questions because I know that there are some time restrictions this morning.

Andrew Kuyk: Good morning everybody. My name is Andrew Kuyk, and I am director general of the Provision Trade Federation. We are a classic industry trade body. We represent staple meat, dairy and, in alliance with the Food and Drink Federation, fishery products.

Ian Wright: I am Ian Wright, and I am the director general of the Food and Drink Federation. We represent manufacturers and importers across the food chain in almost every product category, and we have approaching 300 members drawn from across the country. One of the key things about all of us is that the majority of our members are not London based, although they may have some London facilities. So we reflect this sense of place by being in every constituency in the country.

Kate Nicholls: I am Kate Nicholls, and I am the chief executive of the Association of Licensed Multiple Retailers, which is the trade body for eating and drinking out. We represent just over 95% of the UK's managed pubs, bars and branded restaurants, as well as some coffee shops, cafés and hotel accommodation.

Chair: Thank you. We will start the questioning with Stephen Kerr.

Q2 **Stephen Kerr:** Good morning. May I ask you first what your biggest area of concern is? What is the biggest area of concern for businesses in your industry about the impact of Brexit?

Andrew Kuyk: In the immediate future, our concern is the continuing uncertainty as to where this is all going to end up. Businesses need to plan ahead, in terms of not just future investment strategy but basic things such as their supply chains, ordering in advance and so on. At the moment, there is a concern that we need clarity as to what the future arrangements will be.

Behind that, clearly, what the future terms of trade will be is absolutely critical. That is because it is a distinguishing feature of the food and drink industry that tariffs in our sector are very, very much higher than they are for the generality of products. For most industrial goods, tariffs are in single figures, but with things like meat and dairy you are looking at the EU's external tariff being something that ranges between about 40% and over 100%. So at that end of the spectrum there would clearly be some huge challenges.

We obviously hope that it will be possible to arrive at a free and frictionless trade agreement. The free bit is the tariff bit; the frictionless bit is to do with the other rules and regulations that might apply, and again that very much depends on what the end point is, what our status is vis-à-vis the single market and this phrase about "alignment" with EU regulations.

A final one, which I am sure will be echoed by the other panellists, is the availability of labour. Again, our industry is atypical in that it employs relatively large numbers of non-UK labour.

Q3 **Stephen Kerr:** I am certain we will come back to all those issues that you just raised, but I would like to hear from Ian and Kate.

Ian Wright: I would echo much of what Andrew said. For us, the three big issues of Brexit have been, first, labour and the availability of labour, which has been partially, but not completely, solved. There is also what is now known as regulatory convergence. At the moment, we face the prospect of there being potentially four separate sets of regulations when we transfer out of the single market that is created by the European Food Safety Authority into devolved competence for much food regulation. That is a concern—I am not making a political point; it is just very uncertain. Then there are customs and tariffs, as Andrew said. The worked-out example of that is Northern Ireland, and we are still very concerned about Northern Ireland because it is an agrarian economy.

I would add that the real concern for many of our members, as Andrew just said, is that they are exchanging an absolutely certain status quo that they have lived in for the last 40-plus years. With one or two honourable exceptions, most of us have never worked in a non-EU environment. Andrew is probably the only one on the witness panel with the experience of having worked before we entered the EU and, indeed, having negotiated the common fisheries policy—if you want to get on to that, he's your man. We are most concerned about a disorderly Brexit, because food and drink will be uniquely impacted by an inability to deliver just in time. That is our biggest concern.

Kate Nicholls: I echo what the two gentlemen have said. The biggest concern that we have is around labour and continued labour supply. One in eight of our workers is an EU migrant. The food and beverage service is the second-largest employer of EU migrant workers in the country, so we are particularly acutely affected. Then it is about having certainty for business planning and investment, and the detail that we need to make those investment decisions at a strategic level. It is about an orderly withdrawal, comprehensive transition, and a bold and ambitious free trade agreement at the other end.

Q4 **Stephen Kerr:** Okay, very good. You mentioned uncertainty. Reference has been made to us a few times that the uncertainty is causing a pause in investment decisions, and so forth. Do you have examples of that happening in your industries?

Andrew Kuyk: It is hard to give concrete examples. Different businesses will have different planning cycles, but I think it will be a feature of discussions around most boardrooms at the moment. If, for example, people were planning to invest in a new line in a factory, they would need to make a business case for future demand. That would depend on assumptions on price, and the availability of raw materials and labour. Without being able to say that a particular investment decision has been postponed, I think there is a climate where it is very hard for businesses to make a robust business case.

Another problem is that that will bear more heavily on UK industries. I think we lose sight of the fact that if we do not achieve free and frictionless trade, there will be repercussions for our partners elsewhere in Europe as well, because another feature of the food industry is the degree of integration across Europe, in terms of supply chains, company ownership and markets. However, that overhang of uncertainty will apply less strongly. We may be in the situation of standing still and pausing, while our competitors without those constraints, whether in the EU, America or elsewhere, are moving their businesses forward and taking strategic decisions.

Q5 **Stephen Kerr:** You said you do not have any specific examples. Did you mean that you do not have specific examples that you can share with us, or that you just do not know of any specific examples where investment has been paused?

Andrew Kuyk: It's a bit of both, because clearly these will be commercially sensitive decisions within companies. Companies are not going to broadcast what they might or might not do in a given set of circumstances, because clearly there are competitive issues there.

Q6 **Stephen Kerr:** Do you have anything that you want to add to Andrew's answer?

Kate Nicholls: We have examples where investment decisions have been paused for particularly large capex and roll-out of new restaurants, pubs and hotels, because they really look to take a two-year planning cycle. That is tied up not just with Brexit, but with uncertainty to do with the UK economy and the FX issues that have arisen as a result of Brexit, so you cannot disentangle it. Some of the issues to do with consumer confidence and UK economic growth will also impact on foreign investment decisions. A large proportion of our eating-and-drinking-out market is foreign investment backed.

Ian Wright: I think that is an important point. The topography of the UK food and drink market—whether out-of-home or manufacturing—is that you have a very large number and proportion of international, global businesses, and then you still have a number of family-owned businesses. If you are a family-owned business—for example, McCain Foods, which is owned by a Canadian family—you in effect have one shareholder who has to decide and can take the risk. They are more likely to move in favour of investment, because it is only them who have to decide, whereas big international businesses—I know you will hear from three of them later—have risk committees and investors, and have to satisfy a much wider community of people about the logic of any individual investment. They are more likely to be cautious, and that is what we are seeing.

Q7 **Stephen Kerr:** A very quick question, and short answers would be appreciated because time is moving on. Have you communicated with Government? What kind of response have you had from Government? Has it been consistent?

Andrew Kuyk: We are certainly in continuous dialogue. Ian convenes a food and drink industry roundtable, which brings together some 50 different trade bodies in the food area, and representatives of various Government Departments attend that. We have submitted responses to various consultations. I have got in my pack here a response we gave to HMRC on its consultation on the customs White Paper. It is similar for trade and for the Migration Advisory Committee. We are in constant communication. It is probably fair to say that it is fairly one-way communication at the moment. We are providing a lot of information and evidence, but I don't think we are getting much back by way of exposition, other than on the high-level things about an aspiration towards a free and frictionless agreement and so on. On the level of detail, we are not getting much back.

Ian Wright: I would say we have very good engagement with Government. I agree with what Andrew said, but I would also say that we get to see Ministers and very senior civil servants, and they are very engaged. From a standing start, they are very familiar with the issues. DEFRA has really stepped up over the last year. I have to say that, although I don't necessarily agree with the Secretary of State politically, I think he is a real breath of fresh air for the sector, and is clearly a great champion for it. Whether or not you agree with him is somewhat irrelevant. He is a big beast and we get a hearing, so that is good for us.

Kate Nicholls: I echo that. We have had very good relationships, particularly with the Home Office. We appreciate that it is a difficult situation, in terms of the flow of information they are able to provide. We have had as much certainty as they can possibly give us, given the constraints of the negotiation.

Q8 **Antoinette Sandbach:** The Government have claimed that they can negotiate a deal that would give you access to the single market as good as you currently enjoy. Are you confident that they can deliver that? If you are not, which areas is it likely that the Government will find difficult?

Ian Wright: Let's hope so. I am optimistic about the Government's ability to do many things. My biggest concern is the time. I think we are almost out of time to get what we need. I would like to have more conversations about the implications of that. It is not just for us. I don't know whether any of you saw the October meeting of the Council. The Lithuanian Prime Minister, I think, came out of the Council, had a microphone shoved in her face and said, "We have run out of time. We need a pause." An hour later—the Commission had sat on her—she said, "I must have been misunderstood. I must have been mistranslated," which would have been fine, but she had spoken in English. There is a reflection on all sides that what we are about to go into may not be optimal if we are time constrained.

Kate Nicholls: I echo that. I am confident that we can do it. Whether we can do it in the time we have available is the key question. What we really need to have in the first quarter of next year is some greater certainty about the transition, whether it has been accepted by our European partners, what it looks like, what it means, how long it is and what the dates are. Those are the big issues my members are asking about. They are looking at 18 months out for supply agreements. If we get a year out from Brexit and we still don't know whether there is transition and what the terms of that transition are, that is going to be critical for our businesses.

Andrew Kuyk: Transition is a different issue; I will come to it in a minute. In terms of the overall thing, I would make the general point that trade is by definition a reciprocal activity. You have to have a two-way thing for trade to happen. Trade benefits both parties; otherwise it wouldn't take place. There is a presumption not only on our side that it is in everyone's interests to have as free a trade deal as possible. I think that would be reciprocated. I know it is reciprocated by the European associations to which we belong. The European business community has as much interest as we do in reaching that kind of landing.

My slight hesitation would be, at the more political level, the business about the distinction between membership and non-membership. The point has been made on many occasions in Brussels that there has to be a distinction between the freedoms and benefits enjoyed by full members of the European Union and those who have relationships with it. How big that difference is and how closely aligned you can be within those constraints is the nub of the political discussions that are going to take place ahead.

Transition is absolutely fundamental because, while there is some uncertainty as to what the landing point of that is, there will be a day one in the not too distant future and we all need to know what is going to happen on day one and what the terms of trade will be. The immediate priority is to have some clarity around that. That is not without its problems both legally and politically, but that is our short-term focus. We hope for the best in terms of the long-term deal, but there is an immediate question of what will happen in the more immediate future under this blanket heading of transition.

Q9 **Antoinette Sandbach:** DEFRA's evidence to us suggests that Brexit represents a golden opportunity for the processed food and drink industry. Do you agree or is it more a case of damage limitation?

Ian Wright: A great question, beautifully put, if I may say so. I'm playing for time here while I think of the answer. *[Laughter.]* I think there is a lot of opportunity. I genuinely believe that. My concern is that all the opportunities are back-loaded and all the risk is front-loaded. I am not talking about the sunlit uplands of international trade or any of that. There are opportunities. We import 40% of our—

Q10 **Antoinette Sandbach:** Sorry, can I clarify that? You are not talking about sunlit uplands and international trade, so where do you see those opportunities?

Ian Wright: There is a lot of opportunity in the fact that 40% of the food that we eat is imported. There are opportunities for British companies. Obviously, we are not going to grow avocados—if we did, it would be very expensive because you would have to do it under glass—but there are opportunities there. There are also opportunities for us in exporting. UK food and drink has been very poor, with one or two sparkling exceptions such as my former employers, Diageo, whom you will hear from later. That one company represents 10% of the value of food and drink exports. That is extraordinary. There is loads of opportunity there, but to get to those opportunities we have to get through what Andrew has just described in one piece. The uncertainty of the next two years, three years, just beyond the transition if there is a two-year transition, is really concerning. The quicker we can get to the detail of that, the better, and the fewer concerns people will have.

Q11 **Antoinette Sandbach:** Has there been any indication from Government about striking a sectoral deal for food and drink?

Ian Wright: Do you mean with the Commission? With the EU?

Antoinette Sandbach: Yes.

Ian Wright: I understood the other side had ruled that out.

Andrew Kuyk: May I nuance slightly what Ian has said and go back to my earlier comment about trade as a two-way street being reciprocal? Yes, there will be some opportunities if we succeed in doing freer trade deals with third countries than is currently possible in our full European membership. There will be some possibility to expand domestic production to substitute for imports, but there is a reason why we have this mix. We are, particularly in the sectors that I represent, in dairy, in pork, and particularly in fish, a deficit market. We do not at the moment produce enough to meet domestic demand and give consumers the year-round availability and variety of choice and price points that they currently enjoy in our very good, highly developed retail system.

Q12 **Antoinette Sandbach:** To take the example of dairy, I think we import £1.6 billion of dairy produce, largely processed, because we lack the processing capability in the UK. Is that the kind of area where we will face substantial problems?

Andrew Kuyk: That is a good example. In terms of liquid milk, we have enough to supply the market. What people need to understand is that businesses have optimised to fit the situation that they have known for the last 40 years. We have a processing capacity that fits the needs of the market. Ireland is a good case in point: Ireland is our biggest customer for our dairy exports and we are its biggest customer. That may sound strange. Why are we selling cheese to the Irish and the Irish selling cheese to us? That is the nature of trade. You optimise production and capacity where it makes sense to do so within the single market. We have examples of products that might be semi-processed in one member state and then moved into another one for final packaging. Again, in the Irish example, milk moves across the border in both directions.

There are issues: even if we have the raw material, we do not necessarily have the physical capacity to ramp up production in the short term and also, going back to labour and skills, we may not have the people to run those factories once they are built. It comes back to this timing issue: you have to make the investment case to build those facilities; you need to be able to recruit the people to run them; you need to be able to recruit the people to market the produce as well. That takes time and it also needs a level of confidence in what the viability of that business proposition is going to be when you have finished that process.

Q13 **Peter Kyle:** Ian, what would be the impact of no deal on your industry?

Ian Wright: Pretty catastrophic.

Peter Kyle: That'll do.

Ian Wright: Okay. I don't know what is meant by no deal, actually, but I think I know what you mean. Anybody who thinks that a disorderly exit is anything other than very, very bad for the UK, and in particular for UK shoppers, is wrong.

Q14 **Peter Kyle:** Could you just say what catastrophic means?

Ian Wright: Look, we are never going to run out food. People are not going to starve; this is a first-world problem.

Q15 **Peter Kyle:** What does it mean, then?

Ian Wright: It means choice will be impacted; it means availability will be impacted; it means profitability will be impacted. We always say this, but it is true: we enjoy at the moment the most available choice at all price points in the UK of any country in the world. You go anywhere else, and no one else has the profusion of choice that we have and to which we have become used. If we think of our parents' generation, they regard this as an unheralded, extraordinary cornucopia. It is that that is at risk. It is that infrastructure that is at risk; it is that choice that is at risk; it is that shopper pleasure that is at risk. It is also about the economic impact.

Q16 **Peter Kyle:** From a consumer point of view, we are talking about food and drink. That is a pretty elemental human need. Putting that at threat from a consumer point of view is more than just a normal consumer relationship with a product; it is quite elemental. Do either of you two have anything to add to Ian's reply?

Kate Nicholls: It is the pricing point from our point of view. You have customers who have got used to a long period of low inflation and suddenly food price inflation in our sector has jumped to 9%. So they are seeing a difference in the cost of their pint when they go out and the cost of a plate of food, which means that they will not necessarily go out as frequently. For us, as well, no deal is inextricably linked to access to labour. I cannot see the two being separated out.

Q17 **Peter Kyle:** I presume you never expected to go into your jobs and become international trade experts, but are you familiar with the Canada deal? The Canada deal is being talked up as a possible or likely segue for the British economy in terms of its relationship with the EU. Do any of you have a view about whether that would be suitable or what the impact of that would be or whether that is something that we should aspire to? Perhaps Andrew might want to kick off.

Andrew Kuyk: In a previous existence, I did have some experience of these issues on the civil service side of the fence. The Canada deal is a fairly classic trade deal. There is a point that again bears repetition. With most trade deals you start with an established arrangement. You have an equilibrium of trade at a given level of tariff. Both sides aspire to joint disarmament in tariff terms. You are trying to get from a level of protection to a more liberal position in the interests of both parties, so you are moving towards liberalisation.

We start at the opposite end of the spectrum. We start with total convergence; we start at zero tariff and total convergence in terms of regulation. We are trying to find a deal that ideally stays as close to that or diverges to some degree.

That is why I think it is very hard to make parallels, saying how long it took to negotiate the Canada deal. It is a completely different animal. You were starting from a completely different premise: that you had a level of trade that existed; both sides wanted to do better; they thought that that level of trade could be improved on to mutual benefit and tried to find ways of doing that.

Just as trade is reciprocal, trade deals are reciprocal; you look for a balance of advantage. It is not necessarily apples for apples or pears for pears. You could make concessions in a food area that are then balanced by things in an industrial area. The way you do a trade negotiation, you would simply take the tariff lines and multiply it by the volumes. You come to a value and you try to get a balance of those values so that you get a result that both sides accept as equitable.

Q18 **Peter Kyle:** Thank you. Kate, when you look at the headlines of the Canada deal, it is very granular. There is a special agreement with cheese, which is important to parts of Canada such as Ontario. There is another deal for wine because that is important to the European market. None of them is tariff-free and they vary sector by sector and product by product. Are you reconciled to the notion that we are not going to have free trade with the EU after this? Is it conceivable to have free trade as we understand it today?

Andrew Kuyk: In legal terms, it is perfectly conceivable. There are trade deals. We have one at the moment. I think it is a political question; I do not think it is a technical question.

Peter Kyle: Let me hear from Kate.

Kate Nicholls: It is more of a political question as to where the will is on both sides to reach that level of agreement and what the compromises are on both sides. Our big concern is that the political will is around controlling our borders and controlling access to labour and migration. We therefore need to ensure we have sufficient access to labour to meet the needs of the economy.

From our members' point of view, the concern is around how you much you have to monitor and how much you need to be on top of all the details to understand what the business implications are and to model it. Actually, they are slightly agnostic as to whether it is a Canada deal, a Norway deal, a Sweden deal or an EFTA deal. The issue for business is how much certainty you have as to what we might end up with as the output. It is protracted uncertainty that goes on that causes the problems and difficulties for our business. It means they cannot make those strategic decisions that they need to make within the next 12 months.

Ian Wright: If it is not significantly better than Canada—"Canada+++" is what the Brexit Secretary said, I think—

Peter Kyle: You have added a plus.

Ian Wright: It was only two pluses? If it is not significantly better than Canada, as in it is not Canada+++, consumers and shoppers will be disappointed.

Q19 **Peter Kyle:** They will pay a price, you mean.

Ian Wright: They will be disappointed by what has emerged. It will be noticeably worse than what we have got now.

Q20 **Peter Kyle:** In what way? Will it be worse price-wise, choice—

Ian Wright: Choice, availability, speed—all of that.

Q21 **Chair:** Sorry, but I am mindful of time and how much we need to get through. I want to pick up briefly on something you said, Kate Nicholls. You said that there had already been impacts on price at restaurants, bars and so on. Have you done any analysis of what a no deal or a Canada-style deal—perhaps you can answer this too, Ian Wright—would mean for inflation in your sectors?

Kate Nicholls: We have not done any specific modelling on what individual deals would mean in terms of food prices. The food price inflation we have seen going through since the Brexit vote is largely down to currency speculation. It is about that unrolling. The modelling we have done on food price inflation in our sector suggests that it will come back to be at around 3.9% over the longer term. It will come down from its high of 9%.

Ian Wright: Currency is a driver of what has happened in the past two years. Let us not forget that the devaluation in the currency started the November before the Brexit vote, but the other driver would be tariffs.

Chair: Yes, exactly.

Ian Wright: If we import—these are very rough figures, and Andrew will probably correct me—30% of our milk and there is a 36% tariff, you can do the maths. The price will go up. Similarly, if you have got currency and a lack of availability of labour, where you are having to pay more for the labour you do get, that will be another driver of price. Whatever happens, in the event of a no deal, you will see food prices rise. Our position in food prices is largely also determined by the extraordinary level of competition between the supermarkets. There is a huge amount of mitigation that goes on there. If you look at what happened after the Brexit vote, there was a 16% devaluation in the currency, but food prices did not rise by that much because it was absorbed by manufacturers and the retailers together. In fact, prices rose considerably less than we expected. You cannot be very sure about predicting what would happen in the event of no deal.

Q22 **Chair:** If a third of our milk is imported and there was a 36% tariff on it, you have been talking about the price of milk in the shops overall going up by about 10%—would that be about right?

Andrew Kuyk: Milk is actually a bad example, in that we are self-sufficient in liquid milk.

Chair: It wasn't mine.

Andrew Kuyk: However, if you look at dairy products, such as cheese, the tariffs there are significantly higher. The other factor that has not been mentioned is the transaction costs. If we are looking at a situation where we potentially face tariffs, we will then also potentially face customs procedures and other regulatory things. Various estimates have been done that these alone could add somewhere up to 10% to prices, through the kind of regulatory issues that we don't have to deal with at the moment, being part of the single market. So everything is moving in the wrong direction: currency is moving in the wrong direction; tariffs would add to that; and transaction costs would add to that as well.

Q23 **Chair:** I definitely understand the direction. I guess what I'm trying to get at is this: have any of you, as the trade bodies representing these sectors, tried to quantify it for different scenarios, or your best guess for when we leave the European Union, what the impact will be through all those different things? Are you doing work on that?

Ian Wright: No deal is mid to high single digits, if it is the sort of no deal that we appear to be talking about.

Q24 **Chair:** So we're talking between 5% and 10%?

Ian Wright: Higher. Between 7% and 10%.

Andrew Kuyk: It is a bit unknowable. To me, that sounds slightly conservative; I think it might be more. The other thing is that business models—

Q25 **Chair:** When you say "more", what? 10% to 15%, or—?

Andrew Kuyk: The other thing that will happen is that you will get changes in the dynamics of supply. Some businesses may cease to be viable. They will undoubtedly be replaced by others, because that is the nature of business, but you will get—I do not want to add confusion, but the term is "frictional"; you will get some frictional changes within business models. That will settle down, but again in the short term it could lead to physical shortages of supply and it is basic economics: if things are in short supply, you could get price spikes as a result of those shortages. So the long-run effect might be different from the short-term effects. I think you could see some fairly dramatic things in the short term, which would then tend to level off as people readjust and as businesses reconfigure to deal with the new situation.

Q26 **Albert Owen:** I have two questions. The first one follows on from what Peter Kyle was saying about deals. I will start with you, Kate, because I will give Ian a chance for a one-word answer to this, as he gave to the previous question. How bad does a bad deal have to look to be worse than no deal?

Kate Nicholls: I go back to my earlier comment that for our businesses, eating and drinking, UK-based and relying on—£17 billion of our food will be imported, out of a total of £86 billion. So we are in a slightly different situation to the others. However, the biggest issue for us and our members is not whether it is no deal, a bad Brexit deal or a Canada deal; it is the uncertainty in the short term, which means they cannot do the business planning that you are quite rightly asking us to do.

I cannot go ahead and model some of those impacts at the moment, because I just do not have any details for those companies to allow them to do it. In our sector, 90% of our businesses are SMEs. They are not large multinationals that have a considerable amount of resource; they are waiting to hear what the situation might look like, for them to be able to do that modelling. Of greater concern for my members is the protracted uncertainty, particularly around access to labour but also around supply chain dynamics and non-tariff barriers, because it means they can't plan.

Q27 **Albert Owen:** Okay—uncertainty. Do you want to answer before you go, Andrew? I know you're leaving us earlier than others.

Andrew Kuyk: No, I don't think I have got anything particular to add to that.

Ian Wright: I'd endorse that.

Q28 **Albert Owen:** Okay. Fine. I was expecting a one-word answer that was worse than "catastrophic", or something—

Ian Wright: A bad deal is a bad deal. It's bad—I mean really bad.

Q29 **Albert Owen:** That's fair enough, but do you agree with the mantra that no deal is better than a bad deal?

Ian Wright: No.

Q30 **Albert Owen:** Okay. That's interesting. Others? A one-word answer on that?

Kate Nicholls: No. Businesses need a deal to be able to plan.

Ian Wright: Actually, "no deal is better than a bad deal" is vacuous tosh.

Q31 **Albert Owen:** Thanks. Do you want to try and match that?

Andrew Kuyk: I would not want to add to that. I think it is semantics. We need a deal and there are various types of deal we might get. We want the best deal we can have.

Q32 **Albert Owen:** Thank you. We touched on transition in your earlier replies. Are you in favour of a transition period? How long should it be? This comes with the planning you were talking about.

Kate Nicholls: Yes, we are in favour of transition, because we are looking at very quickly running out of time, so we need that certainty of having a planning period. Some of the difficulties that we know civil servants will have in rolling over legislation are eased if we have a longer period in which to do it. As to how long it should be—I am sorry but I am going to sound a bit like a broken record—I am slightly agnostic about how long it should be; I would just like to know, so I can give businesses some certainty. I would like to know not how long it is but what the actual date is. So is it "two years after we leave"? Is it aligned to a calendar year, or to a budgetary year? That is what they need to know.

Q33 **Albert Owen:** Ian, you mentioned that the planning was about two years for many of the larger companies, which we will hear from later. Those are the Prime Minister's words—that this should be about two years—and she talked about an implementation period. My question to you is the same: do you think that the period should be two years? Is that something that your members would agree with?

Ian Wright: I agree with Kate. Knowing what the period is would be a really good thing. To some degree, knowing what it is is more important than knowing how long it is. But two years sounds about right. I think though, the truth is that the transition will be as long as the last thing takes. If it takes more than two years to implement a customs system that is frictionless, the transition will in effect have lasted longer than two years. I suspect that there is a whole series of actual practicalities that will last considerably longer than two years and some that will be dealt with much quicker. Although there will be a legislative cut-off, I think in the real world quite a lot of this stuff will happen anyway.

Q34 **Albert Owen:** Andrew, do you want to add anything? I will also ask you a supplementary on top of that—would you like to see the status quo apply to that transitional period—that is, us to be members of the single market, customs union, and so on?

Andrew Kuyk: Our aspiration is to have a free and frictionless deal. We have free and frictionless at the moment, so if you are asking, "Would we want to move to something worse in order to get back to something closer to what we have?" the answer is: clearly not. We would like to continue as we are, ideally indefinitely but certainly in the transition. Why do we need a transition? It is because there is both the political difficulty of reaching a fully fledged new relationship before we reach the magic point of 29 March 2019, and the not-inconsiderable legal hurdle in that the Commission is saying to us that we cannot do a trade deal until we become a third country.

Even that were to happen the following day—even if magically all the pieces of the jigsaw were in place and we could rubber-stamp something on 30 March—businesses need to know now what they are going to have to deal with in the coming months in terms of the issues we have been talking about. If you do forward contracts, any business sourcing commodities will hedge to a certain degree; you will order six, nine or 12 months ahead—in the case of frozen fish, you might be ordering 18 months or two years ahead, and you need to be placing those orders after Christmas for the period after March 2019. So transition is essential.

What form should it be? We would like it as close as possible to the status quo. How long it lasts is a little bit "when we reach the landing point"—we would like the continuity until something is agreed. Hopefully, the new state will be close enough to where we are that there will not be much change, but if there is to be a change at some point, we need to have as much notice as possible, because again it is not just British companies and the British authorities putting things in place. If we get to a situation where there are tariffs or regulatory burdens, our counterparts in France, Germany and everywhere else need to put their arrangements in place.

Albert Owen: There is unanimity in the panel.

Chair: We will move on to Rachel Maclean, but I am mindful of time—we have Prime Minister's questions today.

Albert Owen: And Welsh questions.

Chair: And Welsh questions as well.

Q35 **Rachel Maclean:** We have talked about the issues with no deal, but I would like to talk about potential opportunities represented by our exit from the EU. We have heard evidence from submissions that there are exporters and various sectors that look to the future and to the potential opportunities outside the EU. For example, we have heard that Ferrero Rocher could look to new trade deals with different countries, and a number of others, especially in commodities and raw materials. I would be interested in your view on the potential for future opportunities, in terms of the impact of lower prices on customers, restaurant brands and services that could be exported overseas.

Ian Wright: As I said earlier, I think the opportunities are back-loaded, but there are opportunities. We under-export food in this country massively—we have underperformed. We have underperformed on productivity and on giving skills to people. All of those things present an opportunity that we will have to grasp if we are to continue to have an industry that is vibrant and extremely successful. I think the export opportunity is pretty huge. I am going from here to speak at an export conference over the road. I was in India the other day, and it is an absolutely fantastic opportunity for the UK; it is under-exploited. This is not just about exports; it is also about investment. Overseas direct investment is a real opportunity. A lot of Kate's brands are doing that, aren't they?

Kate Nicholls: Yes. A large proportion of the top 50 brands in eating and drinking out receive foreign investment. Some of the biggest deals that have happened in our sector are foreign investment-backed. The restaurant sector is also exporting its brands. That is important, because it gives a very physical showcase for some British food and drink producers, which can then showcase their brands in America, China, India and Dubai. There are real opportunities here.

Q36 **Rachel Maclean:** What constraint has being part of the EU placed on you in terms of exploiting that? Clearly, we understand the downsides of exiting the EU without a deal, but there are also constraints on what the sector can do, in terms of free trade outside the EU. Can you say a bit about how that has affected your sector?

Kate Nicholls: There isn't really any impact or restriction in our sector. The biggest restriction we have is the headroom and the capacity for British businesses to thrive in their domestic environment. A healthy fiscal and regulatory environment in the UK is far more important for businesses that want to export their brands to America or set up restaurant chains in China and India than EU restrictions. It is probably more pertinent to manufactured goods.

Ian Wright: I wouldn't say that there is any massive regulatory or other restriction that the EU places on us. What is does is to inform the mindset of people who the industry. We are an industry—manufacturing and importing—of 7,000 companies, of which many more than 6,000 are SMEs. Their ability to go and prospect new markets is probably restricted to one person. What they will do is to go to the market that is most available and nearest to us, which is the EU. It is a huge, vibrant market, so we haven't needed to go outside that. It is more a mindset thing than anything else. The idea that the EU is a warren of red tape and regulation that restricts our ability to do stuff is simply not true.

Q37 **Rachel Maclean:** No, I am not suggesting that. I am just reflecting the fact that there is no trade deal with those other markets, because we haven't been able to have them because we are members of the EU. If those trade deal were available and negotiated, the one-man company could take advantage of that. They wouldn't have to create it all by themselves. It would be there for them to exploit.

Andrew Kuyk: Just as I said earlier that the EU's external tariff on most food and agricultural products is quite high, that is true of quite a lot of other developed economies in the world. We do export. Within my association, we export our speciality cheeses to something like 120 countries in the world, but that is at the margin. It is not the big volumes, and there are both non-tariff and tariff barriers.

We know that the EU has been trying to do a trade deal with America—the famous TTIP deal—for years, but it is a feature of all big trade deals that the agricultural chapter is the most difficult because of the levels of protection. If we were outside the EU and were able to do a more liberal deal that the EU might be minded to do, there would be opportunities, but let's not get the relativities wrong. The main focus of most British food companies is supplying the domestic market. Exports add to the bottom line, and there is potential for growth. Europe is a mature market. If we are looking for growth in world markets, it has got to be in emerging economies and in other parts of the world. Excuse me, Chair, I have to go to another Committee Room.

Chair: I know you are very much in demand.

Andrew Kuyk: Apologies for that. I would be happy to follow up with you on anything further.

Chair: That is incredibly helpful. Thank you very much for your time today.

Q38 **Stephen Kerr:** We have heard some evidence about Brexit. Following on from Rachel Maclean's comment, could you give us your view, Ian and Kate, on the likelihood of our being able to secure deals, once we leave the European Union, in these new markets in which we do not currently have free trade deals?

Kate Nicholls: I can be very quick. I am an eternal optimist, so I have no doubt that we will use our best endeavours to get as good a trade deal as we possibly can, which will open up some real opportunities. As I said in my opening comments, we want those to be bold, ambitious and comprehensive. That is what we need our Government to go out and try to secure for us.

Ian Wright: I agree. This is probably not always understood, but as business people we are optimists by nature—you wouldn't go into business unless you were an optimist—and by and large our optimism is rewarded. I am quite upbeat about the prospect of deals, but the key is that the one with the EU be the first one. We absolutely have to do a comprehensive, bold and ambitious trade deal with the EU; that is the cornerstone of the future prosperity of the food and drink industry. Thereafter, I think there are some big opportunities: India, China, Dubai, Japan—we hope the

Japan deal includes provisions that will allow us to go there—and clearly the US.

Q39 **Vernon Coaker:** Can we return to Ireland? The border has obviously been a huge area of debate and discussion over the last few weeks and months. I mean this not only in terms of Northern Ireland and the Republic, but of Britain and Ireland—east-west as well as north-south. There are obviously concerns about additional border friction—the political context as well as the trade, and the movement of people and goods. A huge amount of trade goes backwards and forwards that is frictionless at the moment. It seems to me that the key question is about the EU-UK agreement that was struck at the end of last week. Is it that it just sets a context for the discussion about what should happen, rather than offering any solutions, but that at least it offers us a way to get to phase 2? Is that it in a nutshell?

Kate Nicholls: I can give you a one-word answer: yes. That is exactly what it is; it sets the context and gives us a direction of travel and a framework to resolve some of the issues that remain outstanding. It is not a final solution in and of itself.

Q40 **Vernon Coaker:** So there is still a lot of discussion to take place?

Kate Nicholls: I would not want to quantify it, but there is still discussion to take place. I have worked in politics for about 25 years, and I would not want to prejudge anything to do with Northern Ireland and Ireland. It is a situation that needs careful handling and time to resolve it in a sensitive manner.

Ian Wright: There are two or three things that would concern me. One is that Ireland is an integrated economy, so for economic purposes the border is meaningless. The island of Ireland is much more substantially agrarian than England. In fact, that is also true of Scotland and Wales: there is a bigger importance to the agricultural and rural economy than in parts of England, perhaps. That immediately changes the dynamic of that market. You will hear from colleagues who will speak after us, particularly from Diageo, about how their market in Ireland is completely integrated. I worked for them for 14 years and we never really thought about the border. We had united Ireland a lot earlier than anybody else. That is important.

Another thing that really worries me is that we have been banging on about this for more than 18 months and nobody has yet offered a practical or technological solution that actually appears to work. Eighteen months is quite a long time. In my experience, when politicians say the words, "There will be a technological solution," they usually mean, "I haven't got a clue."

Q41 **Vernon Coaker:** I don't know whether the Food and Drink Federation has a view, but wouldn't one way be to ensure that the whole UK stays in the customs union or the single market, for example? That would overcome the issue, because we wouldn't have a border.

Ian Wright: Many of my members, though obviously not every one of them, would take the view that you have just expressed.

Q42 **Vernon Coaker:** Is it the same with your members, Kate?

Kate Nicholls: Some of them would, some of them wouldn't. There will be many differences of opinion, just as there were across the country. I would not want to comment on that in any detail. Again, what businesses want is certainty about where we will end up, what the solution will be and what the details are. In some senses, it does not matter what it is; we would just like to know what it is in sufficient time.

Q43 **Mark Pawsey:** May I ask Ian Wright about standards? As members of the EU for the past 40 years we have had harmonisation of standards within the EU. Our coming out of the EU means that we could choose not to harmonise standards. In your view, should we continue to harmonise or should we diverge in some way? If we were to diverge, would that give us opportunities elsewhere in the world in terms of exports? You told us that we have not been brilliant at exporting. If we do diverge, would that mean that your producers, for example, had to produce one set of products for sale in the UK and a separate set of products for sale in the EU?

Ian Wright: The last point is certainly true. If we diverged, depending on the nature of the divergence, we might have to produce different products, different packaging or different labelling. From that point of view, convergence is a good thing because it brings down the cost per—

Q44 **Mark Pawsey:** Would you say that we should stick as we are and keep exactly the same standards that we have adhered to over the past 40 years, or that we should diverge because we now have the ability to do so, and if we do that there will be these fresh opportunities?

Ian Wright: I do not think we should go for fresh opportunities at the expense of shopper and customer safety. Europe has very, very high standards in food safety. This statistic was aired in the referendum—I think it was from 2013, but it might have been 2014. Regarding Europe's deaths from food poisoning, the regime preserves people's safety to the point where in some jurisdictions the difference is 100 to one. I think that the figure for the US, for example, was that in 2013 there were 1,300 deaths from food poisoning. In the EU, with a bigger population, there were 11.

Q45 **Mark Pawsey:** So are you making a case for us to harmonise—

Ian Wright: To retain.

Q46 **Mark Pawsey:** To retain exactly the same standards—you would not want to see any form of divergence at all?

Ian Wright: If I may, that is not the position now. There is a regulatory environment, but there is a lot of difference between Italy and France, and Germany and the UK. There is divergence, or at least difference, at the moment, but the regulatory framework is one framework—that is the point.

Q47 **Mark Pawsey:** And you would want us to continue to adhere to that framework?

Ian Wright: Yes, unequivocally.

Q48 **Mark Pawsey:** Would your industry say the same thing, Kate?

Kate Nicholls: Yes. We forget the consumer at our peril. Whether we could, should or would diverge, the consumer will probably not let us diverge. Our consumers are very well informed when they eat out. A lot of them know the provenance of the food they are eating and do not want to go to any lesser standards. Just look at the public outcry there was at the thought that we might have chlorinated chicken. Ian is absolutely right: the European framework, particularly for food safety and health, sets the principle that you must achieve and allows the member state, and the individual company, to determine how they meet it. It does have a degree of flexibility built into it and it does have divergence, but it means that we do not have any non-tariff barriers or delays at customs points when food enters the country. Delay in getting food into the country, particularly perishable goods, would add costs to the supply chain for our sector.

Q49 **Drew Hendry:** You mentioned some workforce issues earlier. Given that 30% of the workforce in food and drink manufacturing is made up of EU nationals, and that 19% of those are in skilled labour positions, the majority of the submissions that we have received wanted Governments to strike a deal ensuring the free movement of labour. Could the businesses in your industry find replacements for those EU nationals from within our UK population?

Ian Wright: The answer to that is that, over time, anything is possible. In the short term, manufacturing, rather than the wider chain, is churning out—we have 400,000 workers and, as you say, 30% of them are EU. We lose about 30,000 people a year to retirement and to people going home, because the demographic of the workforce is much older—they are all my age: 58, 59, 60.

There are three options: automation, which will happen, but this industry is quite low on capital and has narrow margins, so investment is difficult and some of the equipment does not yet exist; the substitution of other workers, and in certain places there will be Brits who can take those jobs; or people working longer. I think it is quite likely that our population will work longer, for all sorts of other reasons that have nothing to do with Brexit—pensions, and so on. That may not be a bad thing, if it is a choice entered into voluntarily, as it were.

We will be resourceful and find ways to do this, but to give you one current example, I have a member who has a factory in the north of England. He runs three shifts, six days a week. His shifts have about 35 to 40 people working on them. He is now always four or five people short; he simply cannot attract labour in the way that he has been able to.

Kate Nicholls: Obviously, I cannot talk about manufacturing, but I can talk about hospitality. We are the third-largest private sector employer in the country. We employ 10% of the UK workforce. It is not a question of skills shortages or simply relying on foreign workers; we face a labour shortage issue. In certain jobs, higher proportions of our workforce will be EU migrant workers. We have actually grown UK employment at the same time as EU migrant labour has increased over the last five to six years. For us, obviously there is an issue of short-term constraint on labour, simply because we are in a low-unemployment economy at present, and therefore we have labour shortages. It is a question of recruiting locally and who is walking into those jobs, be they at entry level, semi-skilled level or skilled level.

For us, it is about a timescale in which to recruit more UK workers, but there will have to be either a larger pool of unemployed UK workers from which to draw or people shifting from retail jobs into hospitality jobs. I have no doubt that that will happen over time as automation progresses in areas that can be automated. Hospitality cannot be automated; it always relies on a person serving you with a smile and producing the good-quality food and drink that we have in our pubs and restaurants. I have no doubt that the "unexpectedly unemployed person working in the bagging area" in retail will move into hospitality, but that will take time when we are in a low-unemployment economy.

Q50 **Drew Hendry:** There is more that I could ask you, but because of time I will ask one final question on this issue. What are the skills or gaps where it will be hardest to replace EU nationals, and could you cope effectively with a visa system for people coming into the workforce?

Kate Nicholls: It would depend on what the visa system was, but if we were to go to a system modelled on the current tiers and visas for non-EU workers then no, we could not cope. The only job in our sector that is allowed under that system is chef, and the chef has to be earning more than £35,000 per year, and you pay £1,000 per worker. That is not a solution that would fit our needs. Currently, about 55% of our kitchen staff are EU migrant workers. That drops to 35% for managers. They are skilled and semi-skilled jobs that we are looking to replace, so in the short-term we could not cope with that kind of visa system. The costs would be prohibitive and that would mean job losses and business closures.

Ian Wright: I agree with that. I think that the definition of skills is one that needs much more exploration. I would say that someone who works in an abattoir is skilled, but it may be that the Government would not say that, or the current regulations would not say that. We would really struggle to replace our staff and vets in abattoirs if we had no access to European workers.

I should say that the fact that we have got to the point where, effectively, everybody who is here can stay is a big win. We really need to get out and start telling them that, because of the level of uncertainty. There is quite a big gap between knowing that is the case, telling everybody and them actually understanding it. That is an early win that we should all be dealing with.

Chair: Thank you very much Ian Wright, Kate Nicholls and Andrew Kuyk for coming to give evidence this morning.

Examination of Witnesses

Tim Martin, Dan Mobley and Ian Rayson.

Chair: Thank you, Tim Martin from Wetherspoon, Dan Mobley from Diageo and Ian Rayson from Nestlé, for coming to give evidence to our Select Committee this morning. We are under time pressure, as you know, so we will get straight on with the questions. We will do the questions in reverse order. We will put pretty much the same questions as to the first panel, but we will work backwards this time. We will start with Drew Hendry.

Q51 **Drew Hendry:** You may have heard the question that I posed to the previous panel, but I will repeat it: 30% of the workforce in the UK in food and drink manufacturing are EU nationals and 19% of those EU nationals are performing skilled roles within the industry. The majority of our respondents have said that they wanted Government to strike a deal ensuring free movement of labour. Could your business or industry cope and find replacements for those EU nationals within the UK population?

Dan Mobley: Diageo could definitely cope. We have about 400 people at the moment who are potentially impacted by Brexit. Around 270 of those are EU nationals working in the UK and around 130 British nationals over on the continent.

We were very pleased by the outline agreement last week because it removed a lot of the uncertainty that those people and their families have been labouring under. Nothing is agreed until everything is agreed, but we took a lot of comfort from what was announced last week. We are waiting for the European Council to propose that the deal can move forward and then we can communicate formally with our employees and let them know that.

Longer term, we are more concerned around our suppliers. As I said, it is a relatively small population for Diageo. They are highly skilled workers who we are bringing into the UK. They would be digital marketeers, for instance, coming in for us, and we imagine that would continue after Brexit. Our concern would be more around our customer base, retailers and suppliers and whether they can get the workforce that they need to maintain operations.

We do see an opportunity there. Some of the earlier speakers talked about skills. For us, Brexit now makes it imperative that both big and smaller companies start to upskill younger and unemployed British people to help them into employment. Diageo leads an organisation called Movement to Work, which brings together 250 big British businesses, trade unions, charities and the civil service. Its aim is to try to tackle the 800,000 young people who are currently unemployed, particularly those who are not economically active at the moment and who are not seeking labour.

Brexit creates a business imperative for us to upskill those people and get them into jobs, with structured work placements that lead to permanent jobs. That programme has had huge success. We find that more than 50% of the people who go through it end up with a job a year later. For the Diageo graduates we take through this programme working with our customers, 80% end up with a job a year later. We think Brexit is an opportunity for us to work with our supply chain to upskill young people and give them structured work placements that lead to a permanent job at the end.

Q52 **Drew Hendry:** One of the key questions posed was, are there replacements for those EU nationals within the UK? In that context, I will ask the question of Ian and Tim as well.

Ian Rayson: From a Nestlé perspective, we have a lot of similarities with Diageo, but some differences. We are probably less exposed than some in the food industry. I was just listening to Ian Wright, who was talking across the broader industry where, for employers, there are particular issues with lower skills. From our point of view, we have about 800 employees who are EU nationals. The recent confirmation that they can stay is, of course, welcome. Everyone is welcoming that, and so would we.

The issues that we would have and are concerned about are actually part of the longer-term skills issue for the food industry. Ian Wright referred to that. We do have an ageing workforce and a skills gap, particularly around STEM skills and, for us, around food engineering and food science. That has been a long-standing issue.

We have similarly been very involved in the skills agenda as a company and have been encouraging the industry to be the same. By encouraging more engineers and through apprenticeships, we can bring other skilled people into the workforce longer term, but it is not a short-term solution.

We do need to be able to have access to skilled employees from the EU. We have an R and D centre, for example, in York, which brings people in and out with different specialist R and D skills from Nestlé and R and D networks around the world all the time. On all the signals and everyone's understanding, everyone wants to support the continued movement of skilled roles like that, but we want to make sure that, as an outcome, we can continue to do that.

Q53 **Chair:** Do you know what proportion of your workforce are EU nationals?

Ian Rayson: About 8%.

Dan Mobley: In the UK, 6%.

Tim Martin: I've never done a survey, but in our most recent 100 pubs that we opened a year or so ago, which were mostly outside London, it was quite low: 5% non-EU, non-UK born, and half and half born in the EU and outside the EU.

Chair: Thank you.

Tim Martin: Given that all the people here now are eligible to stay, and assuming we leave the EU in March 2019 and have a sensible immigration policy, because it would be controlled by MPs in this country, who we can influence, I don't think there is the slightest danger whatsoever of running out of people to run the bar on a Saturday night, for example. I am very confident that we will be able to find people. Obviously, everything is subject to the people in charge, but I think the right way to make the immigration case is to come here to the House of Commons and for you to decide.

Q54 **Drew Hendry:** On that subject, could your industry business survive with a visa system if you took on board the current rules in terms of your requirements for skills and EU nationals?

Tim Martin: If it was a sensible visa system, of course we could. Most people feel there should be a type of control. Countries with much higher levels of immigration than the UK has had in recent years—Australia, New Zealand and so on—have visa systems that work very well, and we can make them work well here.

Ian Rayson: We will certainly survive, of course. I do not think the risks are of that scale, but it would have to be a visa system that allowed that continual movement. It would certainly cause us problems and issues if we could not bring in the right skilled people at the right time, and we are dependent on the EU for that.

Dan Mobley: For Diageo, yes. For our supply chain we would need to see the detail, but if it was a sensible regime it should not be a problem. The retail sector is estimated to need 40,000 new employees over the next couple of years, regardless of Brexit. As I say, I think the real opportunity over the next couple of years is to look at how we upskill young British people to take some of those jobs. That is a real business imperative for us and for other companies.

Q55 **Drew Hendry:** I will move on to standards and food and drink regulations. As an influential player and driver of high standards in food regulations, how important is it for the UK to retain influence or participation in the existing regulatory bodies across the EU? Should this be a key part of the negotiations?

Dan Mobley: There is relatively limited direct regulation of alcohol across the European Union. There is very little standardisation. Drinking cultures and health guidance to consumers tend to vary quite dramatically country to country. There are very specific regulations around certain aspects that we would like to see protected, so geographical indication. We would not want other countries to start making Scotch. We have seen no indication that any other European country would want to repeal geographical indicators. It would be a strange thing for anyone to do.

There is specific regulation around labelling that is under discussion at the moment. Again, there is very little standardisation. In Diageo, we have voluntarily changed all our labelling and are rolling this out worldwide because we want to provide better consumer information around how much alcohol is in a serve from one of our drinks and how many calories are in a serve. That is not required today, unlike other forms of foodstuff. That is where the devil gets into the detail. Harmonisation across the EU could be a very good thing if it led to a sensible outcome, and it could be a very bad thing for us if it led to something that we would not welcome.

There is a live debate in Brussels around labelling and information that should be given to consumers. At the moment, the proposal is to give consumer information by 100 ml. To us, no one drinks 100 ml of beer and no one actually drinks 100 ml of Scotch. It is a triple measure. It is not useful information for consumers. If that got agreed and we ended up having to change all our labels across the European Union, that would not be helpful harmonisation. If, however, they adopted our model and said, "Here's how much is in a measure," in terms of pure alcohol and calories, that would be really helpful. We have to treat everything on a case-by-case basis.

Q56 **Drew Hendry:** I imagine that this would more directly affect your business, Ian.

Ian Rayson: Yes. I will come to your specific question. We would have a concern if we started to see regulatory divergence in the longer term. That would have to be very carefully managed. Alignment is important. Some divergence will, I am sure, happen, but it could bring a lot of complexity and challenges for our business if we had to start manufacturing different products with different labelling and different regulations for different countries that we exported to. We would have that in common, I think, with a lot of food manufacturers.

I think your specific question was whether the UK should continue to have influence during a transition period. It is not an issue on which necessarily we would have a strong point of view, but we would support the industry position. For as long as there is a transition period up to the point of exit, that is very material to the UK industry and therefore continuing to have influence would be important and advisable. Beyond that, having influence might be good for the UK, but it takes you into a different area.

Q57 **Drew Hendry:** I don't suppose this would be directly relevant to you, Tim, but do you ever come—

Tim Martin: The reason democracies work and have been so successful wherever they are in the world, compared with other forms of government, is that there is a dialogue between the public, the voters, and the legislators. Once you break that chain and have people who have not been elected, or who are remote from the public, making decisions, the level of regulation tends to be worse.

I don't see this as a danger. If we start off with the regulations we have in the EU today, which we are adopting when we leave, and look at things one by one to see whether they would be an improvement, that is, to me, a really sensible policy. It's just great to wander in here, and you can talk to the people who are making the decisions. That is a big advantage.

Q58 **Mark Pawsey:** Can I pick up that very point? We heard in the previous evidence session, and you seem to indicate, that there is some benefit in harmonisation and keeping the same EU regulation, but we are going to be outside the EU and unable to have any influence on the regulation that comes from the EU, so we will end up being rule takers rather than rule makers. Mr Martin, you won't be able to wander in and have an influence and effect change in a way that would suit your particular business.

Tim Martin: When you are outside the EU, you are not subject to their regulation, but what you can do is decide—

Q59 **Mark Pawsey:** Okay. To what extent is it going to be a benefit to be outside their regulation? How much extra business are Diageo and Nestlé going to be able to achieve by having different regulations?

Tim Martin: It has the benefit of democracy; that's what it has. Regulations are made by people that you have elected, and there is a close link between—

Q60 **Mark Pawsey:** But Members of the European Parliament have been elected, and we have been able to influence the regulation coming from the EU by virtue of our elected representatives there.

Tim Martin: Without getting into the whole debate about that, if you go to the Electoral Reform Society or many other people, there are serious democratic shortfalls within the EU. That is the main reason, subliminally at least, why most people felt they wanted to leave. A lot of people don't accept it is as democratic as you say.

Q61 **Mark Pawsey:** Well, that is a separate discussion. This question is particularly for Nestlé. You have a range of brands across Europe and the world. Will you be taking advantage of the fact that we are no longer a member of the EU—we may have our own areas of regulation—to sell more products around the world? Is there a benefit?

Ian Rayson: To answer that question, I need to explain a bit about different business models and the Nestlé business model. There will be opportunities that come from this, but they will be different for different types of business.

If you look at Nestlé, we are a global food company and we have a huge presence across Europe and within the EU. If you look at us as a UK business, we are hugely important to the UK. We have a major manufacturing footprint in the UK and we have invested £600 million in UK manufacturing capabilities in recent years. We manufacture largely for the UK market and the UK consumer, but we also manufacture and export from the UK to other countries, very largely in the EU, so we are part of a European manufacturing strategy, with a strong UK base.

If you look at opportunities from our perspective, when we export, we are essentially producing Nestlé products in the UK and sending them to, perhaps, Nestlé France or Nestlé Germany, and they sell them in France or Germany. We are not a traditional exporter. Many typically smaller businesses might be able to open up new markets around the world, be they in China, the far east or north America. We are a big multinational with an integrated manufacturing strategy and supply chain, and we move products around the market. Therefore, we would not have great opportunities coming up for further exports, because that comes from a manufacturing footprint.

Q62 **Mark Pawsey:** Why can't you start selling KitKats to China?

Ian Rayson: Nestlé will have those opportunities, but where the KitKats are made and where they are moved to will vary. Typically in a market the size of China, although we might export something from the UK for a period, if it grows and becomes a successful product, you would manufacture in China or somewhere in that region. It is not as if we are a wholly UK company exporting to countries all around the world. We are a global company, and so we transfer and move our production.

Q63 **Mark Pawsey:** And you would adopt all the EU regulation because you would want to sell to the EU, whether we were harmonised or had divergence.

Ian Rayson: If we are manufacturing and selling products into the EU, we would have to follow EU regulations.

Q64 **Mark Pawsey:** But your product would be the same. You wouldn't have separate production lines for European consumption and UK consumption. You would continue to manufacture the same products.

Ian Rayson: We would seek to. If we can't, then you start to build in complexity and additional costs. That is where it would create issues for our business.

Q65 **Chair:** It would be your preference to—

Ian Rayson: To remain aligned, which is not the same as being absolutely identical.

Q66 **Vernon Coaker:** I asked the previous panel about Ireland. Have any of you done any thinking about the impact of additional border friction, if it were to arise? I think Nestlé covers Britain and Ireland, don't you?

Ian Rayson: We have certainly given it a great deal of thought and will continue to do so. Our company is Nestlé UK and Ireland. We treat it as one economic region, even though they are obviously two very separate countries. All the products we sell in Ireland—it may not be absolutely all, but very largely—are either manufactured in the UK or are imported into the UK and then sent by Nestlé UK into Ireland. That border, if you like, is extremely important. The fact that we can move things freely between the UK and Ireland in a frictionless way without tariffs is fundamental to our business model and our business in Ireland.

We would absolutely have concerns and real issues if that frictionless border changed or if we started to see tariffs between the Republic of Ireland and the UK. It is an east-west border as well as a north-south border. Yes, it is a real concern to us and is something we are very mindful of. Our sense from the many discussions we have had is that in the UK Government, the Republic of Ireland Government and Brussels, everyone is very mindful of the sensitivities of these issues and the challenges of getting them right. There is a determination to get it right, which we welcome, but it is a big issue.

Dan Mobley: We have a similar story. Ireland is one of biggest priorities in the negotiation. We run the island as one business, and we manufacture our products on both sides of the border in a seamless supply chain.

Q67 **Vernon Coaker:** When you say the border, you mean north and south as well as east and west.

Dan Mobley: Absolutely. We brew Guinness, for instance, in Dublin. We ship the product over the border to be packaged, and then it may be brought back into Ireland to be exported. Similarly, Baileys is manufactured in plants on both sides of the border. The dairy that we use in Baileys is sourced both sides of the border. We buy 11% of Ireland's cream output to make Baileys. We could manage a hard border, of course—we are a large company—but it would be very unwelcome. We move about 18,000 trucks a year over that border, so even small hold-ups to process those truck movements would be really unwelcome. The big problem would be for our suppliers. If a smaller or medium-sized company, particularly in the dairy industry, had to cross that border and face new tariffs, that would be a big problem for them and could cause disruption in our supply chain.

Q68 **Vernon Coaker:** Have the Government or anyone spoken to you about technological solutions—the use of cameras, for example? Do they work?

Dan Mobley: We have had conversations with the British and Irish Governments. We have some experience of that on the US-Canada border. We make spirits in the US such as bourbon and ship them into Canada. We make Canadian whisky and ship it into the US.

Q69 **Vernon Coaker:** What does a technological solution actually mean, though?

Dan Mobley: It is not completely frictionless. We have had conversations with the Department for Exiting the European Union on how it works. It allows relatively quick movements across the border.

Q70 **Vernon Coaker:** What is it—a camera?

Dan Mobley: There are cameras placed some way back from the border, which are triggered by licence plates. It would be a potential option, but there will still always be some customs processing required, even with a technological solution. We would much rather what was agreed last week, which was an open border, and that the detail comes forward and that gets agreed. We are heartened that all sides say that is what they want, but we need to see the details.

Tim Martin: It is not really frictionless now for the beer, wine and spirit trade, because when we take products over to southern Ireland, to the Republic, we have to put our beer in some sort of bonded warehouse, reclaim the duty from the UK and then head over to the Republic and go through phase 2—paying that duty. Perhaps Diageo has found another way that is easier than that but I do not think that they can just send trucks over the border with duty paid, so there is an element of friction anyway. Everyone is clear that we want a frictionless border. I am sure that it can achieved. There are precedents elsewhere: Nestlé in Switzerland, which is not in the EU, does extremely well and solves these types of border issues. We will be able to in Ireland, as well.

Q71 **Chair:** Tim Martin, Switzerland is in EFTA. Are you advocating that Great Britain and Northern Ireland stay in EFTA to secure those benefits?

Tim Martin: I was not specifically advocating a particular type of trade deal or organisation for the UK. The main thing about Nestlé and Diageo is that they trade absolutely all around the world. Whatever the types of regulations are, they are able to deal with them.

Q72 **Chair:** Okay, perhaps let Nestlé and Diageo speak for themselves. Can I pick up something that you said, Dan Mobley? You have 18,000 trucks a year crossing the border for Baileys production. Have you made an estimate of the impact on cost, for example if you had 15-minute waits for each truck at the border?

Dan Mobley: We have made an attempt to estimate that. It would probably cost us around £1.3 million a year. That is a broad-brush estimate. In the context of a company with £18 billion of global sales, it is manageable, although it is unwelcome. The real problem will be for the suppliers. It is easy for us to manage that, but we have concerns for the smaller companies that move dairy across that border.

Q73 **Chair:** Is that £1.3 million just the cost for Diageo or does that include the cost to your suppliers?

Dan Mobley: No, that is just the cost to Diageo.

Q74 **Chair:** Have you estimated what you think the cost might be for your suppliers?

Dan Mobley: No, we haven't been able to do that yet.

Q75 **Albert Owen:** Is that just the one border—the Irish border? I drink Baileys—it comes to Wales through Welsh ports. Are you suggesting that you have done the whole analysis on the UK ports and maybe the ports to Europe as well?

Dan Mobley: All our analysis has been just on the border crossings, mainly because it includes some finished products moving across the border, but actually the supplier chain movements are across the border. Whether it is glass, cardboard, dairy inputs or our product that has been brewed but has yet to packaged being moved across, all the work that we have done was around moving those products across the Irish border.

Albert Owen: So there could be added costs?

Q76 **Chair:** How many bottles of Baileys do you sell a year?

Dan Mobley: In the UK?

Chair: I am just trying to work out roughly how much the £1.3 million might add to cost. I am worried about Albert.

Dan Mobley: It will not add meaningful cost to the price of Baileys in the UK.

Chair: He is just going home to stockpile some bottles.

Dan Mobley: It will not add cost to the price that you pay for Baileys if you go to a pub. As I said, our concern is not directly for Diageo, but for the supply chain. Those are the people who will be affected, because there may be tariffs on the dairy inputs moving across the border, and there will be administration delays that we, as a large company, can swallow, but smaller suppliers may find more difficult.

Q77 **Chair:** And the £1.3 million—that cost comes from what?

Dan Mobley: That is our estimate about waiting times for the trucks. Obviously we try to run the most efficient production process possible. In a factory that is operating 24 hours, if a truck is slowed down and stops, we can produce less.

Q78 **Chair:** And how long a wait is that based on?

Dan Mobley: We have made an estimate, based on other countries, of how long we believe a truck would have to wait at the border. Using the US-Canada example, you add 15 minutes for a truck, but it could be much longer.

Q79 **Chair:** Thank you very much. Is it possible to share that work with us, either in confidence or in public? That would be very interesting.

Dan Mobley: Yes, I am happy to share that.

Ian Rayson: We probably also have similar information that we could share, if that is helpful.

Chair: Thank you. I think it is really useful for the Committee to understand what this actually means in practice, rather than just looking at the high level, so any detail you have would be helpful, Mr Rayson.

Ian Rayson: It has implications beyond the costs that Dan described. Supply chains to retailers are just-in-time supply chains; if you start to build delay into them, you will not necessarily meet customer expectations. It has important knock-on effects across the industry.

Q80 **Stephen Kerr:** Free trade agreements are obviously the opportunity that

Brexit can create for us. Where do you feel the UK is uniquely placed to get such a free trade deal once we leave the EU?

Dan Mobley: Our first priority would be to get the UK to grandfather existing EU trade deals with countries that cover spirits. There are some quite important ones: the EU-Korea free trade agreement, EU-Colombia, EU-South Africa, EU-Dominican Republic. The Government has said that it wants to grandfather those—just port them across. That would be very welcome, but it is not clear that it is necessarily going to happen immediately.

Losing the benefits of those trade deals would be unwelcome. It would be manageable—we would be talking about tens of millions of pounds lost rather than hundreds of millions—but it would be unwelcome to see those benefits lost. To put it in context, the EU-Korea free trade deal, say, is very welcome to us, but a single increase by the Chancellor in duty on spirits in the UK, as happened last year, is a bigger hit to our business than the loss of that deal. That is in a single year, and we understand from the public finance projections that he is planning to do that every year.

Q81 **Stephen Kerr:** And new markets?

Dan Mobley: New markets are absolutely one of the big opportunities we see in Brexit. India is the holy grail. We are realistic: trade agreements take a long time to negotiate, so we would like to continue to work with the British Government to press the Indian Government unilaterally to bring down its very high tariffs on imported Scotch. It is the biggest whisky market in the world, but only 1% of the whisky consumed there is Scotch. There is huge potential for our industry and for Scotland. As other countries have become wealthier and consumer demand has increased, they have unilaterally dropped tariffs. India's tariffs on imported spirits are 150%. We would love to see them come down. If they came down as part of a trade agreement, brilliant.

India would be the absolute priority, but we would also like agreements with other countries. Mercosur has 300 million consumers, so it would be a big opportunity if the UK could agree a free trade deal there. Nigeria would be another one for us, and so would Thailand. We see plenty of opportunity, but we recognise that this is a long-term game; we are probably talking about 10 years plus, rather than immediate benefit.

Q82 **Chair:** That is very interesting. What percentage of the whisky drunk in India did you say was Scotch?

Dan Mobley: Scotch is 1% of all whisky consumed in India.

Q83 **Chair:** Are the tariffs on other imported whiskies lower?

Dan Mobley: No, but almost all the whisky drunk there is Indian-made liquor, including Diageo's. It is a huge business for us; we are one of the biggest bilateral investors in India, and we bought a large company called United Spirits Ltd, which we have rebranded as Diageo. It is producing Indian liquor for that market, but as the economy becomes bigger and consumers become wealthier, they want more premium products. We would love to be selling them Scotch. We try, but with tariffs at 150%, it really limits the market to very wealthy people.

Q84 **Rachel Maclean:** Tim Martin, you talked about the potential for prices to come down in your restaurants after we leave the EU. You have said in previous submissions that you could see a plate of food being 3.5p less. Could you say a bit more about how that would come about?

Tim Martin: The EU charges tariffs on food imports to the 93% of the world that is not in the EU. A considerable amount of food comes from the EU at the moment, even though there is a discouragement to export to the EU because of the tariffs. So when we leave in March 2019, MPs will have the opportunity—if there is no transitional deal, because if there is one you will not be able to do it—to vote to eliminate tariffs on non-EU food imports. That would automatically have the effect of eliminating potential tariffs on EU food as well, so food would become tariff-free.

For some reason, I do not know why, the CBI, the BRC and the chairman of Sainsbury's have not said that. They have said in public—and it has been absorbed by a lot of MPs and the public, in my experience—that food prices will go up sharply if we leave the EU without a deal. That is not true if MPs decide that they will do the same as MPs did when they repealed the corn laws a couple of hundred years ago and vote for it to be tariff free. For me, that is the first big step that MPs and the country could take: make food imports tariff-free and bring down the price of food in the UK. On top of that, make free trade agreements as and when you can, so we can get McDowell's whisky, the number one selling whisky in the whole world from India, imported into the UK, which is what Diageo would like, I am sure.

Dan Mobley: It is actually tariff-free at the moment; there are no tariffs on spirits.

Tim Martin: Oh, sorry.

Dan Mobley: It is a great whisky, though.

Q85 **Rachel Maclean:** Tim Martin, what you have said presumes that if we did not have a transition period and we fell back on World Trade Organisation tariffs, that that would not actually increase prices? What we have heard, or what we understand, is that there are high levels of tariffs under World Trade Organisation rules—up to 104% for meat, 157% for fruit and veg, and so on.

Tim Martin: It is nonsense, in the sense that if you decide to go tariff-free as a country, you are perfectly entitled to do so under World Trade Organisation rules. New Zealand has done that, Australia has gone a long way along the line, Singapore has done it, I believe Hong Kong has, and Macau—those are very successful economies. I think it has the great advantage of cutting out complication—cutting out 10 years of negotiations. For food, morally, it is the right thing to do. It will increase the purchase power and the financial wellbeing of the British public.

Q86 **Rachel Maclean:** What is the view of other panel members?

Dan Mobley: You need to separate out food from drink. They are very different when you are talking about trade. Spirits face zero tariffs under WTO rules. Diageo and our industry are potentially in a better place than many other sectors because even with the hardest of Brexits, if the UK reverted to trading under WTO terms, we would not face any new tariff barriers.

Q87 **Rachel Maclean:** So for you, if we were on WTO trade rules, your business would not be affected?

Dan Mobley: The challenge would be on customs administration.

Rachel Maclean: Non-tariff barriers, then?

Dan Mobley: Frictionless trade is nice because there is less paperwork, but on tariffs, no, we would not face any new tariff barriers whatsoever on spirits.

Q88 **Rachel Maclean:** And Nestlé?

Ian Rayson: If we went entirely on to WTO terms—we have done the assessment; we are not assuming that it will happen or preparing for it—our costs would increase quite substantially. There is no doubt that it would lead to cost increases in terms of raw materials, packaging and other things that became subject to the tariffs. But tariffs vary between food and drink and in different food sectors, so you could get a different outcome depending on what business you are. Certainly, from our perspective as a broadly based food business, going on to WTO terms would see increased tariffs and an increase in costs.

Q89 **Rachel Maclean:** What are the commodities that would be most impacted in terms of the volume that you use in your business? Is it dairy—milk?

Ian Rayson: I do not have that breakdown. We would be happy to share that separately. It becomes quite complicated.

Q90 **Mark Pawsey:** In the same way as the Chair was trying to establish the additional charge on a bottle of Baileys, can I ask by how much you think a burger would fall in price in my local Wetherspoon's if we were able to take advantage of cheaper world food prices, Mr Martin?

Tim Martin: We averaged it out across all our goods, and I think it was 3p a meal. Most of that is tariff-free anyway; it is more for some. We buy our burgers from Ireland and the UK, so you might still have to pay £4.29 for your burger.

Q91 **Vernon Coaker:** Ian, you said you have done an assessment of the impact of us going on to WTO terms. Have you got those figures to hand?

Ian Rayson: I don't have them here, and they are a little bit complicated so it is probably best not to just throw them out there, but we are very happy to share them with the Committee on a slightly more structured, confidential basis.

Chair: That would be very helpful. Thank you very much for coming to give evidence to the Committee today. It has been very useful, and we look forward to following up with you on some of those specific questions.