House of Commons

International Trade Committee

Oral evidence: UK-US trade relations, HC 481v

Wednesday 31 January 2018

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Watch the meeting

Members present: Angus Brendan MacNeil (Chair); Mr Nigel Evans; Mr Ranil Jayawardena; Mr Chris Leslie; Julia Lopez; Stephanie Peacock; Emma Little Pengelly; Faisal Rashid; Catherine West; Matt Western.

Questions 211 - 309

Witnesses

I: Giles Derrington, Head of Policy, techUK and Mike Hawes, Chief Executive, The Society of Motor Manufacturers and Traders.

II: Mark Buckingham, Chair of Agricultural Biotechnology Council and Dr Julian Little, Head of Communications and Government Affairs, Bayer.

Written evidence from witnesses:

- techUK
- Agricultural Biotechnology Council

Examination of witnesses

Witnesses: Giles Derrington and Mike Hawes.

Q211 **Chair:** Good morning, panel. Thank you for coming along this morning. Can I ask you both to introduce yourselves for the record, as you would like to be remembered?

Mike Hawes: Mike Hawes, Chief Executive of the Society of Motor Manufacturers and Traders.

Giles Derrington: Giles Derrington, Head of Policy at techUK.

Q212 **Chair:** Thank you very much. Can I ask you, what is the significance of the US market for the UK automotive and tech industries?

Mike Hawes: Maybe I will kick off for automotive. It is ironic we are having this session today. We announced our production figures overnight. The US is our second-biggest export market. It accounts for about 15% of exports. Bear in mind we export about 80% of what we make and of that 80%, about 15% goes to the US, which is the second-largest market after the EU. The EU is about 54%. As you can see, it is an important market; it is a growing market. It grew about 7% in terms of total exports last year, but it is still some way off the importance to the UK automotive industry of the rest of the EU.

Giles Derrington: Similar for tech as well. It is worth saying, by the way, that obviously tech is quite an expansive definition of industry. It covers an awful lot of different things, so some of the numbers can be slightly difficult to match when it comes to US definitions versus UK definitions. Broadly speaking, it is our single biggest one country export/import market. Just in terms of telecoms, computers and information services, which amount for about 80% of the total import/export from the tech sector, it is about £4 billion of exports and about £2 billion of imports. That compares to about £8.4 billion from EU exports and about £6 billion from imports. Again, similarly, it is a very big important market, secondary probably to the EU as a whole.

Q213 **Chair:** The US production of exports to the UK is only 3.5% of their new car exports. Why is there this imbalance? Why do we not buy more? Are you just going to tell us that the UK are better at making cars than them?

Mike Hawes: No, we primarily make different vehicles. It is important to remember that while they are both very established markets, both in the UK and in the US, they are very different. I think the best way of exemplifying that is to look at the top-selling vehicles. The top-selling car in the UK is a Ford Fiesta; the top-selling vehicle in the US is also a Ford but it is an F-150 truck. About 60% of the US market, which is about 17 million, comprises trucks and light trucks. It is a massive part. We do not make any of those. What we do tend to make is high-value premium vehicles, which are increasingly in demand, not just in the US, but globally.

If you look at the comparison, we exported about 208,000 vehicles to the US and imported about 34,000, 35,000. Proportionately, it is broadly the same in terms of our share of the US market and US products' share of the UK market, because obviously the US market is that much bigger.

Q214 **Chair:** What is the effect of tariffs on this trading relationship of import and export?

Mike Hawes: In terms of tariffs, if you are importing a vehicle into the EU, because obviously that includes the UK, a car attracts a 10% tariff. If you are exporting into the US, a car will attract 2.5%. If you look at commercial vehicles, which is what a pick-up truck would be, then if you wanted to export from the UK/Europe into the US, it would be 25%, so there is an imbalance again in the tariff.

Q215 **Chair:** So the 25% was for?

Mike Hawes: For commercial vehicles, which would include pick-up trucks. If you were to make pick-up trucks and sell them into the States, they would attract a 25% import tariff.

Q216 **Chair:** It is 10% within the EU, 2.5% going into the States, which may explain the 14.5% or the 3.5% or at least part of the way?

Mike Hawes: To a certain extent. Again, a lot of it comes down to the type of product you are making. Certainly if you are talking high luxury vehicles, this is the best place in the world to make them, I would argue. We are the second-biggest maker of premium vehicles as well. Those are attractive to high net worth individuals, for instance, and those manufacturers like Bentley, Rolls-Royce, Aston Martin will also trade on the heritage and that is internationally traded.

Q217 **Matt Western:** Mr Hawes, the sticker price of vehicles in the North American market has traditionally been that much lower than say in the UK or Europe. Is that still the case and what are the reasons for that?

Mike Hawes: Generally speaking, tax has a big impact. Obviously they do not have the 20% VAT that we would here. You also have to look at the type of vehicles that are being sold and the complexity and the costs that are associated with manufacturing them.

Q218 **Stephanie Peacock:** What can be done now outside of an FTA to increase UK/US trade in your sectors?

Giles Derrington: I think there are a number of things. First of all, outside of an FTA there is the issue of data flows. That has traditionally not been treated as a free trade agreement issue. At the moment, we are part of the EU/US privacy shield, which allows a free flow of data between companies that register in the US as meeting the relevant data protection standards of the EU. As we leave the EU, we will need to replicate the US privacy shield with the UK. That discussion could be starting now to get that process in place. While obviously the mechanisms will be the same considering where the Government is planning to implement GDPR, the actual time it will take to do things like identify the relevant people can take a bit of time. When Switzerland did it alongside the EU privacy shield, it took about six months initially.

The other thing I would say is there is a lot of stuff that can be done just in terms of boosting visibility of UK tech within the US market. For the first time this year, in partnership with DIT, we took 14 businesses, I think, to the Consumer Electronics Show in Las Vegas, which was a very big success. Those companies received millions of pounds of orders. When you look at somewhere like France, they took about 140 companies, so the difference is quite significant. There is a lot of work that could be done now to do that.

Finally, I would say there is also the international level of this. For example, things like tariffs are generally low on tech products, but, on the Information Technology Agreement at WTO level, we should be looking, once we leave the EU, to sign that so that we are part of the next conversations on that. We are kind of hoping to expand it to things like 3D printers, which currently are not covered, which would again allow us to trade easily to the US and indeed other markets.

Mike Hawes: In terms of automotive, two things, we are generally focused around regulation. As an industry, we were very supportive when negotiations were going on in greater detail about the potential for TTIP, because we see the real prize about as regulatory harmonisation—at least mutual recognition, if not harmonisation of regulation. The two main markets have different approaches to regulation and that can act as a barrier. I mentioned the premium luxury sector and they are small series production. In Europe, there are very small series type approval regulations. There is no equivalent regulatory approval system in the US. You have to comply with all those regulations, which is a major barrier. As an industry, we want to see increasing global regulations, but they are very hard to achieve. There are not many great success stories in achieving them over the last 20 years.

Q219 **Faisal Rashid:** My question is around consultation from your point of view and the Government's point of view as well. I understand last year, in November 2017, there was a UK/US working group that met together to discuss promoting SME intellectual property and financial regulatory co-operation. Is there some kind of consultation that the Government, the Department for International Trade particularly, sought from you guys?

Mike Hawes: There was certainly towards the end of last year a UK/US trade investment working group. Unfortunately we, as the SMMT, could not attend that first meeting—I think it was created at the end of last year—but we hope to participate this year. It is important to have that engagement. Obviously, like many organisations, our resources are stretched—not just on trade, but on other matters at the moment—so it does come down to where the most urgent need for our resources to be deployed is.

Q220 **Faisal Rashid:** When you say "stretched", can you just elaborate on that?

Mike Hawes: In terms of our ability to get involved in issues around trade, Europe and the future relationship with Europe, it has to be our priority.

Q221 **Faisal Rashid:** What you are saying is that the Department for International Trade did not seek any—

Mike Hawes: No, they invited us, but unfortunately we were unable to attend that meeting because we had other commitments, but we would hope to engage with it. I do not want to give the impression that the focus is solely on Europe. We do look at all opportunities to increase and make easier global trade. As an industry, we trade with over 160 different countries as it is. You want that to be as free and as fair as possible but it is very detailed, so it does take a lot of time and preparation and involvement.

Q222 **Faisal Rashid:** I appreciate that, but also you can appreciate what the Government is going to do in terms of Brexit and formulating some kinds of agreements with different countries. Obviously the second-largest export from your point of view is to the US, so clearly it is important to engage if you have been invited. I will leave that to you to decide.

My other question on that would be what kind of consultation or business engagement you would like to see with the Government in terms of future trade agreements.

Mike Hawes: A very structured arrangement. Clearly any trade agreement is going to be very complicated, with complex negotiations. If we look at our sector in terms of regulation, the two regulatory frameworks come from a different starting point. In any trade negotiation, it is important to understand the implications on different sectors—and we would be only one—and often the unintended consequences of any decision. Certainly for the US, clearly we would see a huge opportunity. It is the second-biggest global market for cars, as I said. It is a different type of market than perhaps we make cars for, but that does not mean we would not want to see further opportunities to exploit that market. Certainly everyone who currently exports there would like to see anything to facilitate that trade with the US.

Q223 **Faisal Rashid:** Are you looking to engage with the Department for International Trade in the future?

Mike Hawes: We are. Equally, we would also look to engage with the Department for Commerce directly in the US, as is appropriate.

Giles Derrington: Can I come in on that question, just to say that we have had some significant engagement with DIT already on this? We held a round table for our members with DIT to start discussing some of the issues around a US trade deal. It is worth saying that a lot of our bigger members are only just now beginning to think about what that might mean in practice, so work is ongoing.

In terms of the point about what the future structure should look like, if you look at the US model for doing trade deals, they are very good at structuring for business councils, working under non-disclosure agreements to allow that access. Certainly speaking to our Canadian counterparts about NAFTA renegotiation, what they have said is they are having to change their models so that they have better business engagement so that they can compete effectively with the US in terms of that delivery. For us, I think the sooner that there is a structure in place for all trade agreements, that we understand how to engage, the sooner and easier it is for trade associations like ours to help our members structure to best facilitate that.

Chair: You have sparked the curiosity of both Catherine West and Chris Leslie, both of whom have a quick question.

Q224 **Catherine West:** I find your figures that you put out in the last 48 hours deeply worrying. I am wondering, as somebody in the field, what proportion of that is Brexit and what proportion is what is happening in the industry around VW and all the rest of it.

Mike Hawes: It is hard to distinguish between the two, suffice to say consumer confusion around taxation towards diesel vehicles has undermined that market in particular. Sales of diesel cars last year were down 17%. Especially that was driven in the last quarter, when everyone was waiting to see exactly what the implications would be at a local level.

The other issue of course—and all the economic indicators point to this—is that consumer and business confidence, especially around the potential for purchasing big-ticket items, and a car is obviously the second-biggest ticket item, is also undermining demand. We hope this year will be a bit more stable. We still expect it to be down on last year by about 5%. There is a degree of cyclicality into it, but you cannot escape consumer confidence, especially in our sector.

Q225 **Catherine West:** If this downward trajectory continues, what kind of job losses could we see in the industry? Because we know at Ellesmere Port, for example, promises were made when that first occurred and then, sadly, hundreds of job losses have been announced. Can you put a figure on it if this trend continues?

Mike Hawes: I do not think it would be right to speculate, because invariably a market decline is not even. Certainly manufacturers and, to a certain extent, retailers have to build a degree of flexibility into their plans to manage shifts, because you do get a natural shift between different models. I would not like to give a particular figure, but clearly if total production demand is declining, then there are invariably some implications. The best thing we can do is do what we can to divert UK production from UK consumers to international markets.

Q226 **Mr Leslie:** Just one very quick question. In all of this discussion, there are only so many hours in a day to deal with all of these trade issues, European, Chinese, American. I just want to step back a little bit and get your sense of prioritisation for your sectors. If your industrialists, your businesses are looking at the dashboard of things that are flashing red and things that are amber or green, can you give us a sense—whether it is the loss of single market access, for example—of how high a priority that is versus perhaps building this American trade deal? Give us your sense of priorities. We talked about which meetings you can go to and all of those things. I just want to get a sense of what is the most important issue on your agenda right now.

Giles Derrington: For us, ultimately it does come down to the EU market. The UK is very well-positioned to be the kind of linchpin between other international markets and the EU, but that requires very close regulatory alignment with the EU, particularly around things like data flows, where an awful lot of data flows through the UK to the US. That is partly because a lot of the fibre optic cables literally run into the UK. For our members, broadly speaking, as a diverse sector, the priority is the EU, and particularly from our bigger foreign investors, when the US speak to them, they say, "Look, if you have to choose US or EU in terms of an FTA, which do you go for?" and they say, "EU" quite consistently.

Mike Hawes: Broadly similar. The majority of our exports go to the EU; the majority of our imports come from there. Then when you look at the supply chain as well, again the majority of tier 1 componentry comes from abroad and the lion's share of that comes from the rest of the EU. Overlap that with the regulatory framework under which we operate and the ability to move people around, which is important, given it is often European operations, we are totally integrated into Europe, that is the priority. It is not the only priority, but that is the number one priority at the moment.

Q227 **Chair:** Before we move to Matt Western, just to pick up on the last point from Faisal Rashid. You talked about a business agreement or an FTA, you want it to be a very structured agreement. You are worried about unintended consequences. What are your fears, possibly? I know there are some other bodies who have fears that a UK/US FTA might be a frying pan into fire sort of scenario.

Mike Hawes: The fundamental issue is whether we would qualify as a sector to participate in beneficial trading arrangements. Any free trade agreement has an element of rules of origin. Without going into too much detail and wrapping a wet towel around your head, for the automotive sector, most free trade agreements require around 55% to 60% originating content. That means that the content of—in our case, the vehicle—55% to 60% would have to come from the UK and leave aside whether you can accumulate with Europe.

Q228 **Chair:** You feel you cannot meet that?

Mike Hawes: For the US, for NAFTA, they require about 65% North American content. Donald Trump has made noises that he would like to see the originating content rise to over 80%, with the US originating content at over 50%. In other words, he is trying to solidify that. I would suggest that is probably not deliverable given again the integrated nature of how the North American automotive industry works between the US, Canada, Mexico, but certainly—although we are trying to do some calculations at the moment—I would suggest that our originating content that is UK going into UK cars is around 20% to 25%, some distance away from the threshold to allow you to benefit from free trade agreements.

Q229 **Matt Western:** A question for Mr Hawes. How does the EU's approach to the regulation of vehicle production and also vehicle standards like NCAP and so on differ to the US?

Mike Hawes: They start from a different perspective. In the UK and the rest of Europe, you basically type approve a vehicle. That just basically means the vehicle is developed, it is tested and it is certified by an approved EU agency, which is a Government agency. In the UK, that is the Vehicle Certification Agency, and then you put the vehicle on the market.

In the US, you start from the opposite end. Basically they have a rulebook and vehicle manufacturers will self-certify and then the regulators will basically intervene in the market occasionally to test vehicles, to make sure that in-service conformity complies with those regulations. They are starting from a very different position.

There is also the UNECE, which is the framework that both Europe and America have signed up to since 1998, as we try to develop global regulations, but the enforcement of that and the way it operates fundamentally differs between the two major markets.

Q230 **Matt Western:** Looking also to environment standards and emissions, when you think of how California led the world on that and how that has now trickled through to other markets, how do they differ, particularly diesel? Obviously if you look at how the enforcement agencies also have tackled this, what sort of disparity do you see in enforcement of regulations?

Mike Hawes: There are two main areas of environmental legislation, one is obviously CO_2, climate change, and the other is air quality. Looking at CO_2 first, in the US, as you are right to say, they have a fuel economy average, in other words, miles per gallon—and it is gallons—whereas in the UK and the rest of Europe, the approach is to set manufacturers a fleet average target of CO_2, so in other words, across all the vehicles that you sell in Europe, by 2020, 2021, the vehicle average must be 95 grams per kilometre. Failure to meet that, punitive fines. They are both trying to get to the same end goal through slightly different means. Undoubtedly Europe is tougher on that. A fleet average of 95 grams per kilometre is much tougher than the miles per gallon targeted under CAFE.

In terms of environmental legislation around air quality, I would probably concur that American air quality legislation was tougher but with the introduction of something called real-world driving emissions and the change to the test procedure, which came into force last September, I would now say that Europe has the toughest legislation. You now have to test your vehicles not just in a lab under controlled condition, but put the car on the road, attach something called a portable emission monitoring system on the back of it and prove that in the real world, whatever the conditions you are in, you are delivering to that standard. That is the toughest of anywhere in the world.

Q231 **Matt Western:** How does that then equate to the business in terms of the challenge of meeting the different standards, recognising what you are saying about trying to achieve globalisation, but how does that cost impact on business?

Mike Hawes: All vehicle manufacturers, wherever in the world they are, are trying to drive down emissions, all emissions, and reduce that impact on the environment. The European market again, as I said, is very different to the US. It tends to be a small vehicle market, not just in the small compact vehicles for the cities—I do not know how familiar you are with the cars—but if you think of something like an SUV, an Audi A8, on a European road, it would look quite big. If you go and see an Audi A8 on an American road, it looks quite small. They tend to have larger vehicles. It is driven by taste, consumer preference and the regulation.

It is forcing all manufacturers to invest heavily in alternatives to the internal combustion engine, hybridisation, plug-in hybrids, pure electric vehicles and I would suggest that it is the European manufacturers that are probably furthest ahead compared to some of their American counterparts. Certainly one of the major challenges the Americans will have, given about 60% of the market is trucks, is how would you electrify vehicles of that size to give the same performance characteristics?

Q232 **Matt Western:** Just finally, to what extent would simply adhering to international standards minimise non-tariff barriers for UK automotive exporters exporting to both the EU and US?

Mike Hawes: Sorry, do you mind rephrasing? What do you mean by that?

Matt Western: If they adhered to international standards, such as the EU standards, for example, to what extent would that minimise non-tariff barriers for our exporters?

Mike Hawes: Significantly. As I said, the US has a different regulatory framework. It does not have any special considerations for small series manufacturers—think companies like Morgan, think companies like Lotus, sometimes it is very difficult to access the market, because you have to meet all those regulations. Ideally we want global regulations. That is always very difficult because both EU regulators and US regulators will believe that their own system is the best. But certainly in terms of the

EU, we do allow more flexibilities for small volume manufacturers. Those regulations can add up to a significant non-tariff barrier. If you could reduce those, it would create significant opportunities for our small volume high premium producers.

Q233 **Matt Western:** It is for the niche?

Mike Hawes: Especially, but not limited to.

Q234 **Mr Evans:** You say in your written evidence, Mr Hawes, that the elimination of the American 2.5% import tariff on passenger cars entering the US market from the UK could greatly increase market access for some vehicles. What sort of market are we talking about here? If the Americans remove the 2.5% tariff, how many more vehicles would you think that we could sell?

Mike Hawes: It is hard to put a figure on that, because again, it also relates to consumer demand, but certainly any reduction in a tariff, even if it is only 2.5%, does have an impact on the market, which could be up to 5% to 10%.

Q235 **Mr Evans:** It is quite significant, even on the 2.5%?

Mike Hawes: It could be.

Q236 **Mr Evans:** Could you just give us a little flavour as to why the European Union taxes American cars 10% tariff and they only charge us 2.5%?

Mike Hawes: Again, these tariffs have evolved and have come down over time. I think certainly Europe has sought to ensure that there is fairness between the two. As I said, if you want to export commercial vehicles into the US market, you would be paying 25% rather than 10%. Invariably with any negotiations there is a degree of compromise there. I think both sides were, I would suggest, keen to ensure that there was fairness in access for different parts of their own respective markets.

Q237 **Mr Evans:** There are two things happening. One is we are leaving the European Union, and the second, America has President Trump with his America First policy. He has already, at Davos, made some signs in one interview that he gave about how much he thinks America gets a bad deal from the European Union. I am not saying it is going to happen, but if America said to the European Union, "Right, you charge us 10%, we are going to charge you 10%", what impact would that have on EU cars going into the United States of America? The reason I ask that is the American market is massive for EU cars.

Mike Hawes: It is, but always remember that the Europeans have invested significantly in the US market, as have the Japanese. The biggest plant in the BMW line-up is Spartanburg, Carolina. The biggest global plant of Toyota is also in the States. They have invested, in the same way as they have invested in the UK, and that is what happens, you try to build close to where you sell to overcome those tariffs. Undoubtedly, if there was an escalation of up to 10% in the US, that would negatively affect imports into the US coming from Europe, it would affect them very negatively coming from the UK. When you are producing high-value vehicles, which can be £150,000 each, putting in £15,000 additional tariff is significant. Wherever you are in the market, even for high net worth individuals, there are price points. We talk about elasticity of demand. It is still limited. Just because you are worth £1 billion does not mean you will then swallow an additional 15%, 10% tariff.

Q238 **Mr Evans:** Looking at the trade deal in the end between the United Kingdom and the United States of America—and we are going there shortly—what is the potential in automation, in cars and parts, and what sort of opportunities would there be for the United Kingdom in selling more cars and parts into the United States, doing some sort of trade deal with America?

Mike Hawes: It would be significant, because certain, especially small, manufacturers do not readily access that market. Not so much because of the tariff, the real prize would be on the non-tariff barriers and that goes back to the regulation, because that would offer most—

Q239 **Mr Evans:** On what sort of regulations?

Mike Hawes: That goes back to the regulation of the vehicles, on the construction, because you do have to make things differently for the US and they would say they have to make things differently for Europe. As soon as you start making things differently, that adds cost and it is going to affect your end price. UK manufacturers, and I am sure the Europeans as well, would like to see a reduction in any of those obstacles, be they tariffs or non-tariff barriers.

Q240 **Mr Evans:** One final question: cars going from America into the European Union market, they have to follow the EU regulations?

Mike Hawes: Yes, they have to meet the EU standard.

Q241 **Chair:** It is somewhat appropriate that when you were talking about high net worth individuals, you were addressing Mr Evans.

Just before I move to Ranil Jayawardena, you see an opportunity of the 2.5%, if that was go from America. Just going back to a point that Chris Leslie made earlier, how would you react then to the prospect of 10%, four times greater, for the European market possibly? A tariff, selling stuff from the UK to the European market, given your view of the 2.5%.

Mike Hawes: That is something we have modelled. Effectively if we pull out of Europe and go to WTO, then it would be 10%. That would cost the industry about £4.5 billion and in terms of UK cars add about £1,500 on to the price of an average UK car.

Q242 **Chair:** What would that mean for jobs?

Mike Hawes: Again, difficult to calculate, because clearly it would be a threat to the industry, because the margins in this industry are very thin, certainly in manufacturing. Anything that puts additional cost undermines your competitiveness and when it comes to seeking additional investment and you are competing with other locations, especially in Europe, but not limited to Europe, then it does put you at a disadvantage.

Q243 **Mr Jayawardena:** Before I begin my substantive question, following on what you have just asked, Chair, could I follow up with Mr Hawes on this £4.5 billion figure? What is that? Is that the cost to consumers in terms of the price? Is that the lost revenue because you believe sales are going to fall? Could you just explain?

Mike Hawes: It is the total cost. To be honest, if you impose 10% on import and export—this is just to vehicles, leave aside the supply chain, 2.5%, 4.5%—this is just modelling 10% factory gate on vehicles. If enforced, that would mean that all vehicles coming in would be subject to an additional 10%.

Q244 **Mr Jayawardena:** I will come on to that, but this was the cost to your industry.

Mike Hawes: Probably the majority is going to be passed on to the consumer, because remember—

Q245 **Mr Jayawardena:** It is £4.5 billion that is going to be a cost to the consumer, not the industry?

Mike Hawes: No. Again, it is looking both ways, about £2.7 billion of imports will be passed on to the consumer, because 86% of cars sold in the UK come from abroad, so would be subject to this additional money.

Q246 **Mr Jayawardena:** Just to be clear, this £4.5 billion is imports and exports?

Mike Hawes: Yes.

Q247 **Mr Jayawardena:** The cost to your industry in the terms you are representing, if I am not mistaken, the UK interest is much less than £4.5 billion and that will be passed on to the foreign consumers, or am I mistaken in that?

Mike Hawes: No.

Mr Jayawardena: Can you just segment this out a bit? Because it is a big figure and it is important we know how it comes about.

Mike Hawes: It is. As I said, if you levy that sort of tariff on to vehicle manufacturers, because the vehicles that you buy are imported, basically 86% will be subject to additional—if they are not already subject to that 10%—money, so the chances are that gets passed on to the consumer. Given that we export and we are a minority player in the market, let's say we are trying to export to Germany, the big manufacturers there, we are much smaller, so you cannot pass on the 10% increase to the consumer. You have to absorb that.

Q248 **Mr Jayawardena:** The actual figure to your industry is less than £2 billion. Still a big number, but I just want to be clear on it. It is less than £2 billion in terms of the cost pressure that you face?

Mike Hawes: You would have to absorb it and also look at what the effect is on your business.

Q249 **Mr Jayawardena:** Yes, indeed. Then the other portion is the cost to the UK consumer from importing from abroad.

Mike Hawes: Again, you do not know exactly how much. Manufacturers will try to absorb some of that because you want to make sure you continue to sell cars and there is a healthy market, but that is a big step up.

Q250 **Mr Jayawardena:** Yes, totally. In that respect—sorry, this is a new line of questioning that was introduced, quite helpfully, I think by the Chairman—the German manufacturers, who export 20% of all their cars to this market here, what is their calculation for the same comparable figure?

Mike Hawes: I do not think they have done that calculation.

Mr Jayawardena: Because it would be a big hit for them, wouldn't it?

Q251 **Chair:** For clarification, can I ask, is the £4.5 billion a figure that is faced by customers and manufacturers? Is it an aggregate figure?

Mike Hawes: It is the total cost to the industry, some of which gets passed on to the consumer.

Q252 **Chair:** When you say the £1,500 figure, is that £1,500 extra cost on a car at 10%?

Mike Hawes: In the UK, yes. It is equivalent to. I cannot say they are all going to go up. That is on average and then it depends how much manufacturer can absorb of that, because they will seek to do that, because they do not want to depress the market totally.

Q253 **Mr Jayawardena:** In respect of these German manufacturers specifically, they may not have done the calculations that your organisation has done, but surely it is of big concern to them, given that a big chunk of their export market is to our market. If they were to cut us off by putting a high tariff on their exports and our imports and vice versa, that would be in neither party's interest, would it?

Mike Hawes: It is not, but as I said, remember we are dominated by imports. Yes, if you raise the price, the entire market goes up. That will depress demand temporarily. Invariably markets find a new equilibrium and it would affect them all. The UK is a very important market for the German manufacturers, but as they have frequently said, Europe is a much bigger market cumulatively, so they clearly see their priority as maintaining Europe.

Q254 **Mr Jayawardena:** Of course it depends how long the German

Government wishes to prop up the rest of the eurozone, but that is a question for another committee on another day.

Mike Hawes: That is not for me to answer, frankly.

Q255 **Mr Jayawardena:** Could I just turn to the rate of growth on luxury and premium cars that you have talked about also? What is the rate of growth of exports of luxury and premium cars?

Mike Hawes: I must admit I do not have that to hand.

Mr Jayawardena: Perhaps you could provide us a written answer on that.

Mike Hawes: It has grown significantly over the last five or six years, primarily because of the growth in the Chinese market.

Q256 **Mr Jayawardena:** It would be very helpful if you could provide us with a written answer. If you do have any specifics in terms of the US versus other emerging economies like China and India, that would be useful, please.

Mike Hawes: If I can, the only point to make, it does also depend on, when you are looking at total exports, where model cycles are and where the strategies of individual companies may be in the allocation.

Q257 **Mr Jayawardena:** Then, turning to my line of questioning that I wanted to begin with, if you take beef, which we have had many discussions about around this Committee, Canada came to an agreement with the EU with a beef import quota that was high enough that it made the creation of non-hormone beef profitable for Canadian cattle farmers, since the regulations of Canada and Europe were different. Indeed they sell a lot of their meat into the US market, which of course is different from us. Would it not be feasible to have factories in the UK that adhere to American standards on a certain production line if the import duties were preferable, so that we could then specialise in those luxury and premium cars that you have said we are majoring in, we do really well in—this is the best place in the world to make those cars? Are we not able to have production lines, factories that focus on that for the US market and indeed still have a separate production line, separate factory, whatever, that focuses on the EU market?

Mike Hawes: The volumes, as they currently stand, would not be sufficient. I understand the logic and I do not disagree with it, but the volumes are not sufficient to merit that.

Q258 **Mr Jayawardena:** That is why I was asking about the rate of growth, because I would like to know where we are going with this.

Mike Hawes: Exactly. Obviously in terms of manufacturing you are trying to avoid complexity, but we have a degree of complexity. If you look at a company like Bentley as an example, they make about 10,000 cars a year, three production lines doing different products. They have to make cars to different specifications for different markets, be it in the

Middle East, be it China, and it all comes from the one plant. To have a dedicated US line, you would need significant volumes. Clearly when you are into those sort of markets, we are talking small volumes. It just adds complexity and cost.

Q259 **Mr Jayawardena:** Then the flipside could also be true. I drive—sorry—a German car. It is a German car that adheres to US standards in respect of having a pull strap in the boot, which is a US regulation. Heaven forbid someone gets kidnapped, but if they are stuck in the boot, they can release the boot lid and get out. That is a US regulation, in my understanding, not an EU regulation. Nonetheless, it is made to meet both markets. It goes above the EU regulation. What would be the cost of meeting both sets of regulations?

Mike Hawes: Sufficient to make it probably uncompetitive.

Q260 **Mr Jayawardena:** Even in luxury and premium?

Mike Hawes: Yes.

Q261 **Mr Jayawardena:** Could you explain the different systems? What are the real big differences in the regulation itself, bar emissions, which you talked about?

Mike Hawes: In Europe, we have something called pedestrian protection, because people do walk, and that is to do with the potential for impact with pedestrians. They do not have that legislation in the US system. It is much more segregated, on sidewalks and stuff. There is a myriad of differences you could look at. The bumper is different partly because of that. Americans often do not have a front number plate. More significantly, the headlight cluster is very different from where you may have dips; the dashboard has different instructions.

Q262 **Mr Jayawardena:** When Range Rover sell Range Rovers to the US, do they put a different bumper on it?

Mike Hawes: Yes.

Q263 **Mr Jayawardena:** What is different about it? Is it just the front number plate? What is the real difference?

Mike Hawes: You have to design it. Again, there are different crash impact requirements. When you put a car on the market, you have to crash it to prove it meets the standard.

Q264 **Mr Jayawardena:** You are saying that Range Rover sell a less good bumper—

Mike Hawes: No, I am not saying it is less good. It is different.

Mr Jayawardena: But you said it is about pedestrians.

Mike Hawes: It is in the way you design cars for Europe, there is the pedestrian protection legislation you have to meet and that can determine the shape of the front end of the vehicle.

Q265 **Mr Jayawardena:** But if there is no such regulation in the US, then either Range Rover is selling the same bumper, which provides the pedestrian safety to those customers in the US, which is above their standards, because they do not have that standard, or they are selling a bumper that is less good because for some reason they do not want to sell the same standard.

Mike Hawes: They will develop the front end of the vehicle to be as consistent as possible between both regulatory frameworks, so it meets both crash test standards, but there can be additional equipment, as you have seen in the tow bar that goes on in some markets. The design of other parts of a car can be different. As I said, the headlamp cluster, the instrument panel.

Q266 **Mr Jayawardena:** Sorry, just to focus on this bumper point though, because it is one that I understand, being very simple. The bumper—

Mike Hawes: Pedestrian protection is not just about the bumper but that is just one example of different specifications. You will try to develop something that meets both.

Q267 **Mr Jayawardena:** My point can work, that you can make cars that broadly—even if not wholly—meet both?

Mike Hawes: We do. I could not tell you the proportion of a vehicle that is different, but the European spec versus the US, you want to minimise that difference, if you can develop all those with the functionality. But invariably there are some differences and those differences add the cost.

Q268 **Mr Jayawardena:** Perhaps we should contend that we should lead the world and drive change, but that is again for another day.

Mr Derrington, I feel you are being left out. I wonder if I can refer to something techUK has said in the past, that, "A strong, ongoing relationship with the EU is more important than a US trade deal". I would just like to explore that a little further, because if the US is such a huge economy and in terms of a number of the specific areas that we do really well, in aerospace, defence and so on, they are world leaders in this, why is it that we would not want to do more with them? If you say, "It is not a case of us not wanting to do more with them, but we still want to maintain the relationship with the EU" why can't we do both? Surely a trade deal with both, which is the intention of the Government, would be delivering exactly what you want.

Giles Derrington: I think it is not a zero-sum game. I certainly think there are things within a US trade deal that we would certainly be keen to look at. A lot of those things are the same things we would want to look at in an EU deal, but the key point for us is that the UK's place within the global tech marketplace is as this conduit. It is not just because of tech, it is because of a lot of other industries as well. For example, something like data flows, where close alignment with the EU is fundamental, if you do not have close alignment, then we will not be able to get an adequacy agreement. If we do not have an adequacy agreement, then we will not be able to transfer personal data across the EU/UK border. If we do not have that, then our benefits to the US market also severely diminish. You have to build US on top of close regulatory alignment with the EU first.

Q269 **Mr Jayawardena:** A really short yes/no answer: do you think we could position the UK in terms of data, which you have just talked about, as the place to go, the trusted partner, the trusted country?

Giles Derrington: Yes, but I think that is by building on the EU standards, not deregulating.

Chair: Having had the Roger Bannister of questioners, I am going to move to the Usain Bolt of questioners. Matt Western, do you want to come in?

Matt Western: I will leave it, actually, because I am conscious of time.

Chair: Thank you. There is an example.

Q270 **Julia Lopez:** It has been suggested if we had an FTA with the US that it could be a living agreement whereby you had a structured dialogue that continued throughout the relationship. To what extent can structured dialogues such as that address divergences in automotive and tech regulation and standards?

Giles Derrington: I think it is really important, frankly, in any free trade agreement or any broader agreement that we do. Tech is an incredibly rapidly developing industry. There are parts of the tech sector that did not exist even five years ago, looking at things like fintech. Having a living, breathing document is really, really important.

It is also worth saying that across the world there is a lot of talk about different types of regulation at the moment, looking towards future technologies. A lot of the first part of a trade agreement are things that effectively, from our point of view, should be looking to restrict some of the potential ways that countries go. For example, things like forced technology transfers or requiring algorithmic transparency in a way that breaches commercial sensitivities, those kinds of things you can put as an underpinning to a free trade agreement and build on the types of regulations that different countries produce.

The other thing I would say is if you look at some of the stuff within TPP, they had a very interesting digital chapter. That has a lot of those principles in it. Within TTIP there was quite a useful amount of work done on early warning systems about the types of changes you might have in regulation, which will then allow countries to adapt to what other countries are doing. Fundamentally, if you do not have something that allows for development, then the risk for us—and this goes both for the EU trade deal and for the US—is that we end up in a situation where you would not want to develop new technologies here because you risk access to markets where you might see discrimination barriers put up as a first gap.

Q271 **Julia Lopez:** Ranil talked about this idea of Britain being a conduit. To what extent do you think we could adapt that and take a leadership role where we could act as almost a mediator between the two different regulatory systems of the US and the EU?

Giles Derrington: Being that bridge, being that conduit, is the right approach but, as I say, speaking to our big US FDI companies, they see that as being built on the EU first and then looking at where things work with the US. For example, if you take something like GDPR, there have been some suggestions that you could seek to effectively diverge, water down GDPR, so you effectively scrape over an adequacy agreement and then see where there are gaps with the US.

GDPR has global applicability, so big American companies, the biggest tech companies, are applying GDPR across the entire company. The ability to diverge and gain a competitive advantage is not really there. What they say is if you do not use GDPR, then we will go somewhere that does. So, there is a limited value in doing so.

What we can do is build ourselves on the EU regulation and then build those very close business, cultural, facilitation links with the US. For example, on things like tier 2 visas, companies do not bring people in from the US as a rule because it takes ages to get them done and it ends up as a cost. Those kinds of things we can improve. Again, looking at things like CES, taking companies over from the UK to show the American market and, indeed, American VC, which is increasingly beginning to look at the UK for interesting products, that is the way we will build the market with the US. It is not done by pulling out of the EU regulation side because that will limit our ability to access CES.

Q272 **Julia Lopez:** How about for automotive?

Mike Hawes: It is similar. The industry faces a huge number of challenges at the moment: changing technology, connected vehicles, autonomous vehicles, change in mobility patterns, provision of services, and so forth. Ideally, we want global regulations. We do not want this fractured nature of European, US, Chinese, whatever. They are incredibly difficult things to achieve because invariably they are coming at it from a different perspective, but you would want to make sure there is some degree of flexibility built in to respond in what is, as Giles said, a rapidly changing environment.

Chair: Thank you, Julia, a tour de force in brief questioning.

Q273 **Faisal Rashid:** Part of my question you have already answered about rules of origin, and I understand you wanted to elaborate a little bit more on it, so I will just ask that question. What content thresholds and cumulation provisions for tech and automotive should be included in a US/UK free trade agreement?

Mike Hawes: As I said, most free trade agreements tend to have a minimum threshold of 55% to 60%. We in the UK would be a long way from that, probably less than half that, because basically EU content counts as UK and vice versa. In any potential for US/UK we would need to ensure there was effectively diagonal cumulation so that EU content counted as UK and vice versa for the purposes of that US trade deal, which would require the three parties to agree.

The reason I say that would be a specific requirement is it is not easy to extract yourself from your current relationships with, in our case, European suppliers just to go, let's say, to a UK supplier because the UK may not make that product. The way the industry works is with very low margins. On the outside it looks counterintuitive that a part begins in one country, goes into another country and becomes a more elaborate part, then goes into an engine in a third country, then a car in a fourth, to be sold in a fifth country. That has evolved to take advantage of cost, to take advantage of quality, and it operates in a seamless fashion. Anything that disrupts that—to extract the UK operation out of that framework would be incredibly difficult and certainly would not happen quickly.

Giles Derrington: It is worth saying on tech, as I said before, a lot of tech goods are zero or lower rated because of the WTO's ITA agreement on ICT goods. For a lot of the businesses that produce goods in the UK to be sent across—again, about 20% of the UK tech export market—often at the moment it is easier to pay the tariff wherever you are going, including to countries where we already have FTAs. There are about 2,500 components in a computer. An individual component would have to, as a rule of thumb, be 50% or more made up of tariff for it to be worthwhile going through some of those processes. For us, the more valuable option is signing up to the ITA and being part of the conversation about what other goods, as you expand the types of technologies that are available, fall within that and are zero rated. That is probably the easier way to do it.

Q274 **Emma Little Pengelly:** This is a question to Giles. I know that you have touched on this already, but techUK has stated that rather than a light touch approach to protection of data as part of a UK/US trade deal, the UK should prioritise securing an EU data adequacy agreement. I know you have mentioned some of the reasons for the sequencing of that, but can you explore that a little bit further? In addition to that as well, what room does that then leave for negotiations on data protection with the US? If it is sequenced in that way, are there some disadvantages to that or do you just see that as a very straightforward, logical approach?

Giles Derrington: Obviously, this is something we have looked at because it is a priority within the Brexit context for tech. The first thing to say is, as I say, GDPR has global reach. Any company trading at all with the EU has to apply GDPR, which is why global companies are increasingly saying, "We are going to treat this effectively as an international standard". There is not really an alternative US standard to choose. They are further behind in regulation with that.

There are certainly, as you look towards new technologies like AI, going to be challenges about what GDPR mark 2 looks like and how the EU looks to regulate that and, therefore, where the UK sits with those kinds of issues, which is why we strongly support what the Government have said about getting an adequacy agreement, which is that they should be looking for a continued role for the Information Commissioner's Office in the negotiations on EU development of data protection.

The other thing I would say is that a lot of companies use the UK as the conduit already because we meet the standard. For example, take big US banks. A lot of what they do is take personal data from the EU, it comes to the UK, where it is effectively packaged up and then sent across the Channel. If we lose our ability to do that, then we effectively break our value there to the US banks. We do not see there being that much scope. What is going to be important is how we show a global leadership role in development of thinking on regulatory policy around AI, which is why things like the Government's new Centre for Data Ethics are really important, why things like the regulatory sandbox approach that the Government have started to explore will be valuable, because we can lead the way in some of the thinking on things, which frankly no one has really figured out how to do yet. That is where we can provide additional benefit.

Q275 **Emma Little Pengelly:** As a follow-up question to that, I suppose in a sense tech and that type of industry has grown quite significantly in the last numbers of years and presumably is projected to grow significantly in the next few years. Unlike perhaps some of the more traditional industries, which have had, for want of a better term, a bit of a protectionist dialogue around tariffs between countries—we have had some written evidence in relation to standards and this idea that in your industry it has been quite difficult to find an international standard or regulation—in relation to the likes of tech, which is a much more modern growth area, is it your view that for companies no matter where they are in the world there is an appetite for this idea of a global standard so that it is not in the same territory necessarily as some of the historical industries where you have had a bit more protectionism?

Giles Derrington: I think there is, but the question for tech, particularly on something like data protection, is there is a balance to be struck between protection of consumers and the ability to move data freely. The US is maybe lighter on the data protection side. I think if you look at the conversations going on within the UK at the moment, were we to leave the EU and have theoretically free rein over this, we do not see UK consumers being particularly content with the idea of watering down our data protection standards. In fact, when you see the Data Protection Bill, which the Commons is going to receive shortly, in the Lords a lot of the debate and amendments there were on strengthening above GDPR.

Yes, there is a need for a global standard, but I think increasingly tech companies are understanding that it is important that consumers trust how their data is going to be used, that companies know what they are doing with data and what their responsibilities are. That global standard, while people were concerned about GDPR as it was going through, there is an understanding that the world is changing its view on this stuff, so meeting those standards is worthwhile.

Chair: Ranil Jayawardena, the Usain Bolt of questioners.

Mr Jayawardena: I will happily pass on this in the interests of time because I think we have had a full discussion on the multiple areas already.

Q276 **Matt Western:** This is a very simple question. I am interested to know, given what we have heard so far about the complexities for both sectors and the potential impacts either way, the possibilities but also cost consequences, when did the Government or BEIS first approach you to request some sort of understanding of the implications of Brexit and for you to file data on what you saw as the opportunity or potentially the cost of Brexit?

Mike Hawes: We certainly have a regular dialogue with BEIS.

Matt Western: But when did they first come to you post-Brexit?

Mike Hawes: On this specific issue, we have something called the Automotive Council, which has been going for getting towards nine years now. Certainly, around the time of the referendum and soon after we were feeding in information and we have always continued to do so. We publish information and I know some of that information will be picked up by BEIS for the basis of their evaluation. I would say it is an ongoing dialogue rather than specific stuff.

Q277 **Matt Western:** But you would have given some sort of modelled data on what you saw as the implications of Brexit within the autumn of 2016?

Mike Hawes: Any modelling we have done we have done of our own volition to try to figure that out. We feed in data because we publish the manufacturing data and registration data, all of which you would need for your calculations as to what the potential impact would be.

Q278 **Matt Western:** Hence these figures that you shared today?

Mike Hawes: Yes.

Giles Derrington: Broadly similar. One of the challenges that the tech industry faces is figuring out where the edges are, if that makes sense. Is financial services a tech sector is a question that we have had to grapple with. Is automotive increasingly becoming a part of the tech sector as you go towards connected cars and those kinds of things? Figuring out the full extent has been quite hard to model, but we have been doing that modelling off our own bat rather than the Government specifically requesting us to do modelling.

We have been feeding in, though, since the referendum in terms of the key issues and where the priorities lie. I would say the first year or so post-Brexit was an education piece for Government on things like data flows, which have not been drawn out in a, "We are not part of the EU" conversation context anymore. That has been the work.

Mike Hawes: I would also add that I know Government have individual discussions with companies where they can be more open in sharing financial modelling. It would not be appropriate for compliance purposes for us to hold that information, so there is a one to one as well.

Q279 **Mr Evans:** Mr Hawes, when we go to America we are meeting some Ford executives and some automotive suppliers. Is there anything as we start talking about FTAs that you think we ought to be pressing with the United States of America?

Mike Hawes: I know that that particular company were equally very keen on the TTIP agreement. For the reasons I have outlined earlier, they would look to see what could be done to resuscitate that and especially to remove the barriers to trade, which tend to be non-tariff. I would always argue that this was the real prize of TTIP. If you could get that harmonisation and mutual recognition of American and European regulation and put those two together, effectively that could become the basis for a global standard because they are the two major markets.

Q280 **Mr Jayawardena:** With or without popular demand, I am back just on one quick point, Chairman. You have persuaded me. Mr Derrington, can I turn to the data area that you were just talking about but also e-commerce? We have heard that the US might not want to liberalise these areas very much. Could you explain the extent to which we could successfully push for liberalisation in some specific areas in respect of data and e-commerce?

Giles Derrington: As I explained before, I think data is a much harder conversation.

Mr Jayawardena: But what could we do to push, what bits could we specifically push on?

Giles Derrington: At the moment, I would not be able to give you a clear answer on that. I think e-commerce is an easier question ultimately in this. First, it is worth saying that e-commerce is the point where the tech sector starts to have impact with tariff barriers and those kinds of things. As I am sure people have noticed, if you buy something from America, then consumers are often faced with the hidden penalties of customs charges, particularly when dealing with small businesses who do not do the customs compliance for you.

There is a lot of work to be done on reducing those tariff barriers across the board. It helps the fruition of e-commerce in the UK and with the US. I think it is a big market to expand in, particularly around B-to-B services. That is about 10 times the size potentially of the B-to-consumer market. So, there is some work to be done there on tariffs.

The TPP chapter on digital is really valuable to take a look at. TPP itself I think has a lot of problems. Despite what the current US Administration might say, it is very beneficial to the US. A lot of the perceived benefits to other countries are very complicated to get and probably not worthwhile. That digital chapter sets out some really valuable things. For example, protection against data transfer, protection against localisation of data, which is increasingly a problem when we look at consumer contracts, those kinds of things that act as an underpinning to facilitate trade.

It is worth saying that increasingly tech in the UK is an intellectual property-based endeavour. You have companies who produce what are seen as the best chips in the world, but actually what they sell is a licence. They do not need the free trade deal to be able to do those kinds of things. It is that basic underpinning that allows the development of future e-commerce to be beneficial.

Q281 **Chair:** Before we finish, can I ask the Society of Motor Manufacturers and Traders about rules of origin? In various evidence sessions, not particularly for this report, we have heard concern about the Korean trade agreement, if the UK copies and pastes that with the rule of origin being 50% or 55%, as you said. Would that handicap UK manufacturers and traders if we were to copy and paste that UK/Korean agreement?

Mike Hawes: Copying and pasting, yes. It would not benefit us because we would not qualify for the preferential trading arrangements.

Q282 **Chair:** As it would stand, the Koreans would retain the benefits they have but the UK would lose the benefits they have?

Mike Hawes: Yes, unless you could agree cumulation with the European content, which is what we currently enjoy.

Chair: Thank you very much. I thank the first panel this morning. Probably the most illuminating thing that we have heard—and I think the European Research Group of the Back-Bench Tory MPs are very interested—is that Ranil Jayawardena drives a German car. I have no idea what that might mean.

Mr Jayawardena: I am willing to be persuaded. I will ring up Mr Hawes.

Mike Hawes: I shall pass on your contact details.

Chair: Thank you both very much for your illumination and your expertise this morning. It is greatly appreciated.

Mike Hawes: I appreciate the opportunity.

Examination of witnesses

Witnesses: Mark Buckingham and Dr Julian Little.

Q283 **Chair:** We have a new panel. Can I ask the panel to introduce themselves for the record?

Mark Buckingham: Good morning, Chair, thank you. Mark Buckingham. I am the chair of the Agricultural Biotechnology Council, or ABC, which is the industry group for companies working on gene technology in agriculture, plant breeding, GM crops and now new breeding techniques like gene editing.

Dr Little: Julian Little. I head up Communications and Government Affairs for Bayer, an integral member of ABC.

Q284 **Chair:** Thank you both. What is the significance of the US market for UK agricultural and agri-biotech producers?

Mark Buckingham: It is an important market and there are three areas I would particularly like to divide that into. The first is research and development and science. Britain has a strong position in that field. There are some examples of UK-developed technology being licensed for commercialisation into the US. For example, the Sainsbury Laboratory in Norwich has developed a blight-resistant potato, which has been licensed to Simplot, the largest US potato company. That is a royalty-bearing licence that those researchers at Sainsbury Laboratory hope to receive income from when it is commercial.

There is also significant trade in agricultural products sometimes produced with gene technology. The major example of that is soybeans. Europe imports about 32 million tonnes of soybeans every year. About 2.8 million tonnes of that comes to the UK and that underpins our livestock sector, which by value is the largest part of the UK farming industry, particularly sectors like poultry and pigs but also dairy. So, 2.8 million tonnes of soybean products is about £800 million per year. Of that, a bit less than £100 million worth comes from the USA, so the majority of it comes from Latin America. That trade in agricultural products is really important and the UK and Europe have good access at the moment. That needs to be preserved.

The last piece is deployment of gene technology and farm technologies in the UK. That has not significantly happened. We have seen Europe block technologies like GM for use on European farms and the R&D base in the commercial sector, among our members, has dwindled over the last 20 years because of that. The activity is really in trade and in R&D more than actual deployment on UK farms.

Q285 **Chair:** Thank you. Would you like to add to that at all, Dr Little?

Dr Little: Yes. I think it is worth remembering that in terms of trade on agricultural produce more generally we would certainly import more than we would export to the US. In fact, in terms of agricultural produce that might be from an arable source, it would be mainly malt products from barley that are going into the US.

In all of this—and I think Mark is absolutely right—it is worth remembering that the UK has always been brilliant at innovation in plant science. We have some of the best plant science going on anywhere in the world. Companies like Bayer have invested in the UK and we are currently running 40 different projects at 20 different universities and research institutes around the UK. It is about 20 PhDs. It demonstrates that the UK is a great place to do research. It needs, though, to be in a situation where it can flourish and that requires really good policy, which I am sure we will come back to.

Q286 **Chair:** Yes. A final question from me. What would you generally look for in a US/UK FTA from an agricultural point of view? Would you look to see regulations change here, so that I might be able to grow genetically modified potatoes back in my croft in the Hebrides? Would that be something that you would see changing, which would make some people very worried, and some people quite happy for the blight resistance? There are various views on that.

Dr Little: It is worth pointing out that the European regulatory system has been diverging from the rest of the world in terms of a real desire to cut all hazard out of agriculture. If there is a problem, even if it is a theoretical problem, it will often result in products and technologies being excluded from agriculture. Whereas the rest of the world—and I should say the UK traditionally has been very supportive of this idea—is that it is about risk. It is about the risk of a problem happening. I will give you an example.

Q287 **Chair:** You are saying European regulators in agriculture have been luddite to an extent?

Dr Little: I would say the UK system or the UK thinking traditionally has not been luddite at all. I think it is just a really big divergence at a European level of this wanting to eliminate any possible hazard from a system rather than a much more proportionate and, in the end, a lot more innovative process of saying yes, there are hazards associated with things that are used in agriculture, so let's reduce the risk of those by good stewardship and using them properly. That is something the UK is very good at. It really understands that process.

In terms of US thinking around this, they are again very focused on risk as well rather than just eliminating hazard. I can see the UK and the US thinking quite similarly in the future.

Q288 **Chair:** Mr Buckingham, would you like to add to that? What would you like to see in an FTA? What would you think might change?

Mark Buckingham: We think the UK should set its own rules based on the standards of safety and animal welfare that they want to see, but I agree that we see much more opportunity for a science and evidence-based system that would align with the US approach. It should be a UK approach, but Europe has diverged from a science and evidence-driven approach and that is not doing the best job for public or environmental safety. It certainly is not creating an environment where investment in science and R&D and product development is attractive in Europe and the UK.

Q289 **Mr Jayawardena:** I shall refer Members to my entry in the register of members' interests.

With respect to GM crops and the EU divergence you have talked about, while I would instinctively agree with you on your points around risk, both of you, can you understand, particularly Dr Little from Bayer, when there have been scandals in the past like Primados, people do feel instinctively cautious about new technologies coming on to the market and the hazards that they could pose to people?

Dr Little: Absolutely. It is worth remembering, though, that GM, for example, is not a new technology. Commercially, it has been going now for over 20 years and in terms of research a lot longer than that. Since then, we have had somewhere in the region of 4 trillion meals consumed containing GM ingredients without one substantiated health issue. Lots of mud thrown and a huge amount of research done, but nobody has come up with a substantiated health issue as a result of eating GM. We have confidence based on an awful lot of experience that the way that we regulate this sort of technology is appropriate to making sure that it is at least as safe as its non-GM counterpart.

Q290 **Chair:** Could you just repeat how many trillion meals have been eaten of GM?

Dr Little: We are coming up to somewhere in the region of 4 trillion meals.

Q291 **Mr Evans:** Based on what you have just told us about the reaction of the European Union—I think the Chairman was referring to the EU as opposed to the UK—and their luddite tendency, therefore, you see the opportunity of being outside the European Union now to open a lot of doors for your industry?

Dr Little: I do not think I mentioned the word "luddite". I think it was used by the Chair.

Chair: I asked if the EU was luddite in their approach.

Dr Little: The issue that we have with the European system is that it is not just based on science. There is so much politicisation of the regulatory system, so being outside of that process does give the UK—and I should say the UK has always promoted the idea of trying to keep regulation evidence based, science based. It has always tried within the European system to reduce the politicisation of those processes.

Q292 **Mr Evans:** That is where I was going. Do you see some of the attitudes, if not all of the attitudes, as far as where your industry is going and what your industry can do for food security and food production, from the European Union as being protectionist, to protect European Union agriculture as opposed to being strictly on the science base that you are talking about?

Mark Buckingham: There may be elements of that, but it is the precautionary principle that they are applying in a political way that is the problem. It does mean that European farmers are missing out on very significant amounts of value. It is not just our industry in terms of technology providers and plant breeding who might benefit. There is the science community where the UK is very strong and also the farming industry in general.

In 2014, an economic study indicated that the benefits of GM technology to farmers who were using it globally was in the region of US$17 billion. That was about a 7% benefit on all the value of the four main crops where it is used, which is cotton, corn, soybeans and oilseed rape. If you applied that level of benefit to UK wheat, for example, where there is not any GM use in Europe, or anywhere in the world in fact, that would be about a benefit of £160 million per year. It has taken 20 years to get to that $17 billion benefit globally, but that is the sort of quantum of value that European and UK farmers are potentially missing out on.

Q293 **Mr Evans:** Is GM food 100% safe?

Mark Buckingham: Yes, just as safe as conventional plants and foods.

Dr Little: Could I just put a rider on that? Commercial GM food that is being grown and consumed today—absolutely, because it has gone through all the tests. You can never actually say anything is safe, but what you can say is it is at least as safe as its non-GM counterpart.

Mark Buckingham: The standard is the safety of our food supply.

Q294 **Mr Evans:** If it is 100% safe, why is the European Union taking the attitude that it is taking?

Mark Buckingham: I think it has become a political football. The groups opposing it have developed entrenched positions and now we have reached a point where the industry has withdrawn its investment in seeking to develop these products in Europe and is focusing on markets around the world where they can take the technology to market. There is a gap between the public sector basic science, which is continuing in the UK and is good, and the ability to take products to market commercially in Europe.

Q295 **Mr Evans:** Okay. Finally, outside of any free trade agreement that we could do with the United States of America, and we really hope that we can do one—the President is keen, we are keen—is there anything that we can do further with the USA outside of that agreement that would aid British biotech industries?

Mark Buckingham: I am not sure we need to do it with the USA. I think the UK has the opportunity, as it does with the pharmaceutical industry, to seek to be a global centre for research and development and science in agricultural science and plant and animal science, not just for the UK, not for the farming industry footprint in the UK, but for global agriculture. We can deploy life sciences in that way. I think that should be the goal. Then having a mutual recognition of standards in some areas with the US may be appropriate as well to help broaden markets, but I do not think that is essential. I think the primary objective is a science-driven, pro-innovation regulatory system for the UK that demonstrates the highest standards of safety and environmental protection driven by the best evidence.

Dr Little: Just to add to Mark's comments, and I would agree with them very much, for that work to really happen agricultural policy within the UK has to be very clear. It has to be about allowing farmers to become more competitive, allowing them to become more productive. We are not talking about a reduction in environmental standards. On the contrary, you can absolutely see a situation where highly productive, highly competitive farming and great environmental stewardship can go hand in hand.

We are not sure that we have that just at the moment. In fact, the suggestion that we have seen over a number of years of moving back towards an innovation principle to override a precautionary principle, a shift back from hazard based to more risk based, we are not really getting a very clear view from the UK just at the moment, from DEFRA just at the moment, of where they are going. We have heard a lot around the need for a gold standard, but we do not really understand what that means in terms of how, if we are going to have less subsidies within UK agriculture—which undoubtedly we will post-Brexit—UK farming will be able to react if it is not allowed to become more competitive and more productive.

Chair: You probably got panic in the NFU and NFU Scotland there, but anyway.

Q296 **Julia Lopez:** You have sort of touched upon it, but I was curious. If we changed our approach on agricultural regulation, would there be broader environmental benefits that we could then sell?

Mark Buckingham: Definitely. We have seen agriculture does have impacts on the environment and the goal is to improve the quantity and quality of food production while reducing those impacts. By having better tools to tackle problems like plant disease or use of resources like fertiliser and water, you can achieve that. We have seen that in recent decades here in the UK with the technologies available to our excellent farmers, but to a greater degree where a larger suite of technologies is available, around the world.

Dr Little: Indeed. When we talk about productive agriculture we can also include tools that reduce waste infield, let alone before it gets to a supermarket. There are a lot of options there. Given the right policy and given the right regulatory framework, we could see UK agriculture or UK farmers accessing new products earlier and/or new technologies earlier such that they are in a situation to be able to respond to global pressures but also the competition that undoubtedly they will face, not just from the US but also from Europe.

Q297 **Chair:** Before I move to Catherine West, you are saying that there are farmers in other parts of the world that are as productive but using less fertiliser and less pesticides for a given crop?

Mark Buckingham: Yes.

Dr Little: Absolutely.

Q298 **Catherine West:** What is the impact of current arrangements and uncertainty on British science the whole way through, from secondary school teaching to universities to the lab bench in industry? I am hearing a lot of scientists lobbying me very hard, particularly being a London MP with the Francis Crick and all these wonderful places that we have. They are also really worried about European funding for science.

Mark Buckingham: That is a good point. Science is global and very integrated and the UK is a leader in that field and values that integration and exchange regionally and globally. I think it is important that the Government find ways to continue that and support it because UK plant science and agricultural science is very good. It is strongly supported by the Government. The BBSRC is the major funder in the public sector, and that supports about 1,600 scientists and 2,000 research students. In our industry, across our members, there are about 2,000 employees, of which perhaps 15% might be in science and R&D, so the public sector is very significant. You are right, those global links need to be preserved and enhanced for our position to be maintained.

Dr Little: One of the great things about UK science is that there is always inward and outward flow of the best people. I know that certainly in Cambridge where we are based there is a lot of concern around this concept of post-Brexit issues with freedom of movement of scientists. That affects us as well as other companies. We are always looking to place our best people around the world and also cherry pick from the rest of the world for the best people for the UK. Post-Brexit that is certainly a concern.

Looking at the way that the US works, I do not see there being a big difference between the UK and the US in this area. Indeed, we will continue to attract the best scientists from the US and send some of our best people over there as well.

Q299 **Faisal Rashid:** To what extent would better labelling resolve issues caused by allowing imports of agricultural and agri-biotech products produced to different standards?

Mark Buckingham: Our position is that the issue in Europe is the regulatory system rather than labelling. There are labelling rules and products, for example, referring to GM, with a greater than 1% content of GM ingredients needing to be labelled. There are some examples of those on the shelves and they sell. There is imported candy, for example, confectionary from the USA, that has been for sale for some years. They are relatively few.

The issue is the regulatory position. If you look at the livestock feed sector, where the trade is very large and important for our livestock industry, the labelling takes place on supermarket websites generally, for example. They will explain to their customers probably not on the product but perhaps on a website that for a number of lines they give the farmers a choice of what food they feed their livestock and it is likely to include GM. For some super premium lines or organic lines, they may say it is non-GM. For those consumers who are interested, they can identify those differences and use that for their shopping choices if they wish. That sort of differentiation and labelling is important.

Q300 **Faisal Rashid:** From your point of view, it is already happening?

Mark Buckingham: Yes.

Dr Little: It is worth remembering the enormity of the amount of GM soy that is being imported into the UK and the rest of Europe. Whether you are an anti-GM country or a pro-GM country, it is roughly the same amount. It equates to one pound or one stone of soy for every one pound or stone of human being there is in Europe. When we talk about the imports of soy into the UK, every year it is roughly the same weight as the whole of the population of the UK. That is the level we are talking about. If, for example, somebody said you should label everything, even if it is an animal that has been fed on GM, you would almost be having to label everything and that then becomes meaningless. It is appropriate to have labelling to allow choice but—

Q301 **Faisal Rashid:** Why will it be meaningless then?

Dr Little: Because everything would be labelled, or almost everything.

Q302 **Faisal Rashid:** Yes, so you would give better information and a better choice.

Dr Little: I think that is true if you genuinely want to use labelling as a way of choice. I would agree. If you are looking at environmental standards, there are some fantastic programmes in the UK, the Red Tractor scheme, the LEAF mark and things like that, which are really good at explaining to UK consumers about how their food is made, or at least giving them some assurance that their food is being produced in a great, environmentally sound way. Putting labels on for things like GM is of interest to some people but probably not most people. Those people who are very passionate about being anti-GM, for example, will tend to be organic anyway.

Mark Buckingham: The Government have intervened in the regulatory system. The Government have set up regulatory systems to determine if these technologies are as safe as currently available technologies. Once they have found them to be safe our view is that then labelling should be voluntary. Europe has not done that. They have gone down a compulsory labelling route, which is the system here now. For the livestock feed example I gave, the labelling has been more or less voluntary by the industry. It is providing choice and has been in place now for more than a decade.

Q303 **Matt Western:** I am very interested in your responses on this question. Certainly from other evidence we have heard representatives from different parts of the food and agricultural sector saying labelling is important and allows consumer choice, and we have a more informed consumer than perhaps we did 20 to 30 years ago. With the complexity of the production of food that is important.

What you are saying is that GMO is not as important as perhaps people thought. I am surprised to hear that. Referring to a website, I think most consumers are not going to do that. Given the changes that may be coming down the track, is labelling not going to become more important to the consumer?

Mark Buckingham: In respect of the website, most consumers do not buy organic or premium line chickens. Most consumers buy mainstream or value livestock products; milk, eggs, poultry and so on. The majority of consumers are apparently happy with this system. It has been in place for a long time. From time to time it has received quite a lot of publicity. Several of the supermarkets had a rule requiring their poultry suppliers not to use GM feed. However, because of a shortage of non-GM feed in, I think, 2012 they changed. They were worried there would not be sufficient volumes of non-GM feed available at that point, so they changed the rules and allowed their farmer suppliers to use whatever feed of appropriate quality was available. Tesco led with that. Within 24 hours four or five of its competitors followed. It received some significant publicity at that time but has now retreated back onto the websites, nonetheless the choice is there for consumers who seek it out. However, those who do are a minority of shoppers all together.

We are not looking to minimise or marginalise labelling by any means. We are looking to treat it proportionately to those consumers for whom it is important, if that makes sense.

Dr Little: In some ways I often describe GM as a technology. It is what you do with it that is important. It would be like having a label to say, "We have used a tractor in the production of this food". It is another technology.

However, the European system of labelling for GM food is that if something is in the food you are eating that is GM, if even a tiny proportion of it is GM, it will have to be labelled. That allows choice. I am saying that for derived labelling, when you are taking food, for example a cow that has been fed on GM, do you label that cow or anything from that cow as having been fed GM? The trouble with labelling like that is that it is impossible to show it. You would have to keep amazingly good records to make sure that would work.

What does it tell somebody if almost everything is labelled? It becomes almost a meaningless label, if you like. It is really important that we use labels to give choice and also to illustrate more positive things to the right environmental standards, that is giving information that is useful for a consumer to use when making a choice.

Matt Western: I was thinking about a factory that produces foodstuffs, they have to label about nuts, for example, for nut allergies. Everything more or less gets labelled but it is still labelled. I see parallels there maybe. Thank you.

Q304 **Chair:** That might have to be a case of precautionary labelling, "This beast may have eaten some food that was genetically modified".

There are a couple of questions that I want to get on the record. Are there any environmental risks from GM use related to biodiversity in scientific research?

Dr Little: It is one of those where an awful lot of work has been done and nothing much has come out of it. What you tend to see is that GM is used in many different places. For example, it is more likely to be used by developing farmers than it is by large-scale farmers, both in terms of the numbers of individual farmers and the area in which they are being grown. It will be different in totally different situations.

There is a huge amount of anecdotal evidence, for example, on insect-resistant crops where you are not having to spray nearly as much insecticide. You are finding a lot more insects around and therefore a lot more birds that will feed off those insects. Once GM comes in farmers love to use it. It is a much easier way of growing a crop. Your inputs, the cost of doing it, tend to be cheaper and probably safer as well in many cases. Once it happens you tend to get a very high level of adoption. It is quite difficult then to compare, in a reasoned way, how good it is in terms of the environment.

Q305 **Chair:** If the UK was to go down this way is there any risk of losing access to agricultural markets if it diverges from current regulations, which are essentially European regulations?

Mark Buckingham: We would say there does not have to be. There are good examples in the USA, for example, where farmers have a choice of GM in a range of crops. Canada, Australia and South Africa are other markets that trade with Europe.

Q306 **Chair:** Would the Europeans say no?

Mark Buckingham: Not to a range of products such as food and beverage from the USA, and those other markets where GM is available, if the farmers there want it for the crops where it is available and are also able to trade. There are good examples of thriving trade with markets where some of these technologies are available.

Dr Little: That said, of course, there will be some countries that will say, "No, we would not allow those sorts of products in".

Q307 **Chair:** Which countries?

Dr Little: If we look at the European Union, there will be a number of countries within the European Union that say, "We need to be very precautionary about that". I would remind you that we do have a system now of importing GM products into Europe. It is a regulatory system and is torturously slow but it does happen. It does allow some trade to go on.

Q308 **Chair:** There are some countries exercising some area of sovereignty in this area within the European Union. That is a very dangerous path to go down in Parliament at the moment.

Finally, what I want to take you to, because we are up against time, is the role of intellectual property rights in the agri-biotech sector. How do you respond to suggestions that intellectual property rights in agriculture can reduce biodiversity and increase seed costs, thereby excluding small farmers from accessing these new technologies? Especially when we think of the proprietary nature of some of this with patents and what have you. I am sure you know the area.

Mark Buckingham: I would say there is very good evidence that the reverse is the case. The problem in the case of Europe has been the regulatory precaution. A reasonable level of intellectual property protection is important and facilitates availability of these tools. We have seen over the last 20 years that the economic research shows very high returns on investment in this technology to farmers—on average to all farmers a $3.60 return for each dollar spent on seed. In developing countries over $4.00, $4.40. Generally small farmers have seen greater benefits.

It makes sense. If plants have inbuilt mechanisms to protect themselves from pest and disease the farmer needs to simply grow a healthy plant, and those particular disease or pest problems that it has a trait for will be solved to a significant degree. Whereas if they need to apply a pesticide they need to have the pesticide and they need to understand when it needs to be applied and so on. Generally developing country farmers have seen much greater benefits, both in terms of environmental safety and economics, from access to some of these technologies.

The intellectual property system is society's system for encouraging innovation. The innovative step required to get a patent and the length of time patent protection is applied for should be set by society. Why not apply it to agriculture where we need innovation?

Q309 **Chair:** That is a seductive argument. What we see, particularly in the United States of America, is lobbying groups not setting this for society but successfully lobbying Congress, very often, to have a situation that is counter to what society needs but is very much what pharmaceutical companies, in particular, want. This is a problem, as we know.

Mark Buckingham: We need an open debate about that. For example, the most successful first generation GM products, ones where there is a demand for generic versions, are now available generically. There are royalty free Roundup Ready soya beans available from university plant breeders in North America of the first generation technology that is off patent. The innovative cycle is working in markets where the technology has been launched in our area.

Dr Little: If you think about biodiversity, biodiversity needs space. It needs somewhere to live. The act of making a field more productive means you can grow more food in a smaller area. That has to be underpinned by innovation. You cannot just come along and go, "I have decided to grow more wheat in this field than I have done before, how do I do that?" It might be better seed. It might be better equipment. "How am I going to get better seed?" Better seed comes from companies investing in that. It is not always big companies. It can be small companies. It can be very small-scale breeders who are looking for ways of generating either healthier larger yields or smaller inputs, all of these things that make agriculture more sustainable than it was before and allow space for other things to exist. The innovation that IP brings is what drives our ability to feed everybody at a price they can afford, and have biodiversity in our fields as well.

Chair: Thank you. On that happyish note I will bring this morning's proceedings to a close. Thank you both very much for your views on GM and various other areas, and particularly what you might be looking for in a FTA between the UK and the USA and maybe North American partners. Thank you both very much.