



Select Committee on the European Union

Internal Market Sub-Committee

Corrected oral evidence:

Brexit: trade in non-financial services: follow-up

Thursday 8 February 2018.

10.05 am

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Members present: Lord Whitty (The Chairman); Lord Aberdare; Baroness Donaghy; Lord German; Lord Liddle; Lord Mawson; Baroness McGregor-Smith; Baroness Noakes; Baroness Randerson; Lord Wigley.

Evidence Session No. 3

Heard in Public

Questions 18 - 29

Witnesses

[I](#): Mr Antony Walker, techUK; Mr Russ Shaw, Tech London Advocates; Mr Simon Hansford, UKCloud.

[II](#): Mr Tom Jenkins, ETOA—European Tourism Association; Mr Kurt Janson, Tourism Alliance; Ms Vivienne Stern, Universities UK; Mr Steve Lowy, British Educational Travel Association.

Examination of witnesses

Mr Antony Walker, Mr Russ Shaw and Mr Simon Hansford.

Q18 The Chairman: Good morning, everybody. Thank you very much for coming to see us. I think Mr Walker has been here before. Your industry has made representations to us and helped us in producing our report on non-financial services some months ago. We are conducting these sessions with various sectors that come under the general heading of non-financial services to see how things have been going in your businesses since we last met, against the background of the slight limbo that even Ministers now seem to accept business must be in, and what your take is on the way negotiations are going and what you would like to see in the next phase, particularly in light of the deal done in December.

It might be helpful if you introduce yourselves and give an opening statement of reasonably limited length, and then we will pose some questions. It will be relatively free flow and not quite as structured as on earlier occasions. Nevertheless, hopefully, we will cover all the topics we have identified.

Mr Antony Walker: I am deputy CEO of techUK. We are a technology trade association and represent close to 1,000 technology companies based in the UK, including some of the biggest global names in tech through to a long tail of medium-sized and smaller UK businesses, so we represent the largest, mid-sized and small companies. We focus on tech policy issues and the context in which those companies operate in the UK.

Mr Russ Shaw: I am the founder of Tech London Advocates and Global Tech Advocates, which are private sector led and volunteer-driven groups that promote London as a global tech hub, and we try to address the challenges UK tech companies face. We have nearly 6,000 advocates in the group, including start-ups, scale-ups, corporates and academic and financial institutions, so we have unique insight into the sector. The tech sector is certainly looking for clarity and certainty on a number of critical issues related to access to talent, and funding and regulation. I have had meetings with various government agencies, and I am sure we will go into that in a bit more detail.

The main message from my perspective is that the tech sector is united behind maintaining London's and the UK's position as a globally significant tech hub and tech nation. We have a critical mass of entrepreneurs, investors and leaders at the ready to get behind negotiations that support this vital industry. It is the fastest-growing industry in the economy and we want to ensure its future success.

Mr Simon Hansford: I am chief executive of a business called UKCloud. We are a British SME, recognised last year as Britain's fastest-growing technology company. We provide cloud services exclusively to the UK public sector, so we are used throughout central government, and increasingly in local police and the National Health Service. We began as a start-up just five years ago, and today we employ more than 200

people, many of them with very high-quality apprenticeships, and we have a significant student placement programme for undergraduates in their middle year of university.

- Q19 **The Chairman:** I should have reminded you that this is a public session. There will be a public record and we are broadcasting. I hope that does not inhibit you too much. I remind my colleagues that, if they have to declare any interests, they should do so the first time they speak.

Thank you very much for that introduction. Can we first clear the point that Mr Shaw touched on about engagement with government? How much have your organisations talked to government in the period since our last report, in particular since the December agreement at the end of phase one of the negotiations? Has that engagement intensified? Are there new issues? Are there things that have been resolved and about which you have been reassured? In general, are you reasonably happy with the degree of engagement with government departments?

Mr Russ Shaw: Until December, the amount of engagement that I and the group experienced was very good. There was a lot of interaction with DCMS. I am now part of the Digital Skills Partnership, and that group continues to focus on developing home-grown talent as we prepare to leave the EU. I have done ministerial round tables with BEIS, the Home Office and the DIT. In the run-up to phase one in December, I felt that discussions were good. The Ministers and leaders I was meeting were all on message about what we need from the sector point of view, so that was very positive.

On your question about what has happened since early December, it has, interestingly, been very limited and quiet. There has not been a great deal of interaction. I have had some interaction with DCMS on digital skills. The whole immigration and visa piece, which I know we will talk about, seems to have gone very quiet. I just pick up news from the media. Whether we will even have a visa and immigration policy when we leave in March 2019 sounds unsure. I had a lot of engagement last year with the Migration Advisory Committee. We have not heard any more about that. Over the past couple of months it feels as though it has gone much quieter, at least from my perspective.

Mr Antony Walker: At techUK, we are very engaged right across government, with DCMS, BEIS, the Treasury, HMRC, the Home Office and DExEU. We have certainly been able to have access to engage with them, raise our concerns and have constructive conversations. However, there is an engagement gap. Because the important decisions have not been taken on the big issues—the UK's preferred solution, what its relationship with the European Union will be, and what a future customs system and our future migration system might look like—when we meet officials there is a limit to how far the conversation can go.

Although we are able to raise our concerns, it becomes a lot more difficult at the point when we are trying to talk about solutions, because civil servants are simply not in a position to describe what the future state will

be. There is a real limit to the kind of discussions we can have. For example, we brought in some global experts on customs arrangements to meet HMRC officials. They were very keen to get their input on what a good solution would look like, but when those experts said, "What is the outcome you want? What do you want to achieve?" the civil servants were not able to answer the question and, therefore, that conversation was of very limited value.

As we got to the end of phase 1, I agree with Russ that I saw no discernible hiccups in engagement. We are pleased about where we have got to on migration and settled status. We have been having some good engagement with the Home Office on that, although uncertainty about what happens in the transition process is holding back the ability for both Home Office and businesses to make real progress in supporting the settled status arrangements.

Mr Simon Hansford: We are delighted that we have a voice here today. We sit in an uncomfortable middle ground as an SME. We are not a scale-up or start-up, nor are we a larger enterprise. There is a void generally for our size of business in being engaged and heard. The £50 million to £100 million businesses seem to be missing from a lot of the advisory boards and councils. We try to engage. We have not seen any noticeable uptake since the Christmas timeframe, but we continue to look for avenues to do so.

The Chairman: The gap you referred to does not relate particularly to Brexit; you find it generally.

Mr Simon Hansford: Yes, but it absolutely includes the Brexit conversations. We sit with about 300 partners with whom we do business with government, so we are very close to them. That is the general feeling and sentiment I hear.

Lord Aberdare: Do you get a sense that the Government are working to develop an actual ongoing process for engagement? I worked on trade policy for IBM in the States and was very struck by the structure; different bodies, from chief executive level to working level, all had formal relations and input to government. The EEF published an interesting paper on what happens in the States, Canada and Australia, which all run their own trade policy. Are we moving towards that? Are we thinking that would be okay, or is it just ad hoc engagement at the moment?

Mr Antony Walker: We have written to Ministers on that very point, having spoken to our colleagues in the US about how they prepare for and support their Government in trade negotiations. As you rightly say, there is a very structured way for their Government to engage with experts across the sector in order to get input into trade discussions. As yet, we have not seen that kind of structured engagement, or the apparatus being put in place. Clearly, we have made an offer to the Government to support that process. After March, once we have got through the transition discussions, we will need to be able to progress

very quickly with detailed and specific engagement, often on quite arcane issues.

Mr Russ Shaw: Even though the interactions have been largely with individual departments, and pretty constructive from a process point of view, many of the people I speak with who are engaging with government departments say that within each department it feels pretty good, but the interdepartmental and cross-departmental piece seems to be lacking. I keep hearing a great deal about the need for more joined-up process from department to department. I deal with people who are in digital skills in DCMS, BEIS and DIT, and part of my message to them is, "What we are talking about is constructive, but are you also talking to your colleagues in other parts of the Government?"

Mr Simon Hansford: I can only concur. The lack of structure means that SMEs can engage only through our trade bodies. They do an excellent job for us, but without the structure we cannot engage directly. We are busy trying to grow and build our businesses directly, which is time-consuming enough. Therefore, we need that structure. Similarly, I get very frustrated by the lack of co-ordination across the departments mentioned, where basically we have the same conversations without a central capability and voice.

Lord Mawson: Two things are going on. One is all the stuff about withdrawal from Europe; the other is the changing nature of our economy, which is happening at quite a speed and which you represent. A lot of the traditional dialogue among politicians, certainly in the Civil Service in my experience, is all about big things. Bureaucracies love big things and all that sort of dialogue is going on, whereas you are reminding us that the future is going to be about a lot of smaller things that are very dynamic and fast moving.

When we listen in this Chamber to senior civil servants, good people, they are always talking about policies but not about the machinery below them. They seem to be completely blind about the machinery and what is actually going on; indeed, they do not seem to care about it, which is a major problem. Things will change at quite a pace in this new situation, and the country has a real opportunity. In your dialogue so far, is there a conversation between you and civil servants about the importance of small dynamic organisations, or is the nature of the changing economy not even on the radar?

Mr Simon Hansford: There is a tremendous lot of good going on in government. Over the last six years we have seen a big change, but, as you pointed out, technology is moving at such a pace that even in the industry we are challenged to understand it and keep up with it. What we need is very clear policy, and at times that is lacking.

Lord Mawson: But is the conversation about the significance of small things, in your words, the £50 million to £100 million companies?

Mr Simon Hansford: We need policy and a framework under which we can work, so that we understand the decisions and the rationale; we need the control points, but, to your point, there needs to be better and bigger recognition that projects are smaller and faster and need to be disaggregated. We cannot have big monolithic projects or single suppliers, because they cannot work fast enough. We need smaller, shorter projects, with a lot more involvement from a wide range of technologies, to arrive at a solution. Do we have that culture in the Civil Service? No. There are pockets of goodness, but we are a long way from it.

Baroness McGregor-Smith: What are the three things you think the Government should do differently? We see the challenges, but what are the exact things you would change?

Mr Antony Walker: Do you mean in engagement with smaller businesses?

Baroness McGregor-Smith: What would actually make a difference? We can all do the engagement, have lots of conversations and talk about policy. What changes things for you?

Mr Antony Walker: For engagement on Brexit and the ability to move forward, we are all waiting on key decisions to be taken in Cabinet, so that officials have real clarity on the future direction of policy. We can then get into the substance of understanding, planning and preparing for the UK's future relationship with the EU, and its future trading relationships and aspirations for future trade with the rest of the world.

At the moment, it is very difficult to plan, because businesses, large and small, have little visibility or predictability about what the future arrangements should be, in particular the impact of changes in customs arrangements and the ability to bring goods into the country on a just-in-time basis, for example. There are huge uncertainties not only for companies within the sector but for their customers. The big challenge is that the big decisions have not yet been taken, which makes it very hard for civil servants to do more detailed engagement with the sector.

Mr Russ Shaw: There are three things on my wish list that I think could be addressed now as we move towards Brexit. We are going to touch on immigration and talent, but I will throw in a couple of things now. We need to look immediately at the tier 2 cap, because 20,700 tier 2 visas are simply not enough, especially as we prepare to leave the EU. We can do third-party sponsorship of tier 2 visas so that we ensure that the tier 2 level is getting the right inflow of talent. That is one piece.

The second thing is digital skills, on which there is progress, but we need to move faster. How do we ensure that, from today, younger and older people, are being equipped, upskilled, retrained, reskilled—whatever you want to call it—in digital skills? From where I sit, there will be a significant number of job losses in low-skilled areas, in high street retail, for example. Hundreds of thousands of jobs will disappear in the coming

years. How do we work with those people and retrain and reskill them? We can start that now.

The third thing is about investment funds. It was not public, but everyone I have spoken to on the investment side said that last summer the European Investment Fund effectively stopped investing in UK investment firms. There was no public message about it; it will not publicly disclose it, but it stopped. What can we do to prepare the British Business Bank to fill that void? The Chancellor is on that page, and his patient capital review was a really good piece of work, but we need to be ready to fill that void, so that the flow of money keeps coming in.

The Chairman: There been no public announcement about investment funds finishing, and this is not the first time we have heard that view, but we have no facts. If you have any facts, could you let us have them?

Mr Russ Shaw: We have no facts other than that the firms and funds I have spoken to have said there has been stonewall; there has been no interaction or engagement with the EIF since, I think, July last year. There is no public record of it. It will be on record as saying that investment continues, but it has stopped. There has been some media coverage, not just here but on the continent. It has stopped.

Mr Simon Hansford: For me, it is very clear. The first thing is lack of certainty. Clearly, you get that message. We all hear that. It is very hard to make investment and talent decisions with today's uncertainty. Secondly, we need strong policy that is understood by all and in the departments.

The third thing is control. I look back at what your colleague Lord Maude did with the Government Digital Service a few years back. We had very clear central policy guidance and control that drove good practice throughout departments. Today, we see a lot of divergent policies and behaviours, and it is not easy for a small British business to understand what is going on and play the politics of it.

The Chairman: You are saying, effectively, that the Cabinet Office no longer has the strategy that it had a few years ago.

Mr Simon Hansford: In effect, yes.

The Chairman: Is there anything else anybody wants to say about government engagement? If not, let us go on to a few issues that came up in our previous report, the first of which is the free flow of data.

Q20 **Lord Aberdare:** Clearly, the free flow of data is a key issue for the industry. Would you update us on what the thinking is there? It seems pretty certain that we will need some sort of adequacy decision. What is not quite clear to me is what that might entail and how long it might take. What is the process? Are you confident that it will happen soon enough and effectively enough not to cause any issues for us?

Mr Antony Walker: This has been the priority issue for us as an organisation. We have some confidence about where we think government policy is on this issue. We think there is broad recognition in government of the need to secure a mutual adequacy arrangement between the UK and the EU. DCMS is preparing to lead on that issue. We see evidence of quite good engagement across government on the issue, particularly with DCMS, where it is working well, with the Home Office, and with the security agencies, which will have a key role to play in the process of negotiation on an adequacy arrangement. From that perspective, it looks quite positive.

Our big concern is the difficulty and complexity of the process and the time it takes. The fastest the European Union has ever agreed an adequacy decision is 18 months. I think that was with Argentina. This is going to be a sensitive and difficult issue. There will be those in the European institutions who want to make sure that the EU is not seen to be compromising in any way the importance it gives to data protection issues.

We know from the privacy shield process with the US that these are difficult negotiations, not least because they require discussion of classified issues in a non-classified environment. You have to create quite a complex architecture to enable some of that discussion to happen. We do not think it can happen quickly, even though we have the same starting point in having the same data protection regulation and we are implementing GDPR, which is a unique situation, and very helpful and positive.

For that reason, we are keen to stress that there are no calls from the sector for any kind of divergence from European data protection rules. There have been some suggestions that data rules might be an area where there is a positive case for divergence. We are very clear that the sector wants the UK to be very closely aligned on data protection. Businesses, large, medium and small, are all investing heavily in making sure that they are compliant with GDPR. That is a huge process. Our customers, both businesses and consumers, need to know that there is a strong and robust system for data protection in place. We remain very committed to GDPR. We think it is absolutely essential in supporting and aiding the process of securing an adequacy decision.

Overall, we think it is achievable, but our biggest message is that we need to get on with it now, and we see no reason why both parties, EU and UK, cannot start on the preparatory work to understand how those negotiations will work, and put the machinery in place to make sure that the issue can be resolved. We think it is highly unlikely that it can be resolved before the end of the Article 50 process, so the other issue is the transition, which is closely linked. We think there may be a requirement for some language around data and data protection in the transition agreement, in order to have clarity and certainty for business about how data can flow across borders.

Lord Aberdare: Will we need to do a deal with the US as well, in relation

to the privacy shield?

Mr Antony Walker: Yes. Obviously, adequacy arrangements are not unique to the European Union. Similar arrangements will need to be put in place with other markets as well, and clearly there are interdependencies in the nature of those arrangements. Broadly, we think issues around data protection will play a fundamental role in future trade agreements, because they are key to trade in a digital 21st-century economy.

Baroness Randerson: You are talking about where we start, having left the EU. Assuming that we do not have some sort of agreement that insists we stay aligned with it, because the Prime Minister says we are not going to have that, and we end up with what she is talking about now, we will start at the same point with alignment, but it seems to me that data flows change pretty dramatically as technology changes, and we are going to have to keep up with any EU changes if we are to have what you ask for. From the technological point of view, how often do you think Britain will have to review its rules to make sure that it stays in tandem with the EU?

Mr Antony Walker: The existing EU data protection directive is 20 years old, and it was about 15 years before the EU took a view that it would need to revise the directive. The general sentiment is that the GDPR, the new regulation, will be less enduring, precisely for the reason you highlight, which is that technology is changing more quickly. However, the GDPR was designed to cope with some of that change, so it is a little uncertain. In addition, GDPR was very difficult to negotiate across the member states, so I do not think there will be a huge political desire to lift the lid and revise it again. It is a little hard to predict, but I think it would be more like 10 years than 20 years, and it could be less. That is in the context of the existing data protection regulation.

Of course, there are new issues coming down the track, in particular artificial intelligence and new technologies, which may themselves mean that we need to put in place new regulation or other forms of governance. That will certainly happen after we have left the European Union. There will be a question about the extent to which the UK aligns with or diverges from EU rules, and that may well have implications for adequacy as other issues become relevant to adequacy arrangements. It is a little hard to predict, but decisions will have to be taken over time. Our view is that we should be aligned from the outset, and there should be a process of managed divergence where we can properly weigh up the pros and cons of being aligned versus divergence.

The Chairman: Because we are the scrutiny Committee in this area, we know that another batch of legislation related to non-personal data has already started and will probably come in some time during the transition, possibly just after it, depending on how long the transition is. Once we are outside, would something like that require a major revision of UK law within a relatively short period of time?

Mr Antony Walker: Quite a lot of discussion is taking place within the European Commission at the moment about the extent to which data flows should be included in future trade agreements. The suggestion seems to be that it should, and we are likely to see the European Union seeking to assert its standards around these issues in trade agreements. The EU is moving to implement anti-data localisation measures within the single market for all types of data, apart from those that have public security relevance. We anticipate that that will be the standard for data that can be localised legally within a market. We expect it to be the standard that will appear in future trade agreements, but others may have a view.

Mr Simon Hansford: I am very much in agreement with those statements. As a cloud-hosting business, free flow of data is absolutely core for us. There is a massive threat to us if we do not have an adequacy agreement in place, but, as I am sure we will come to in later questions, there is a massive opportunity for Britain if we have the right laws in place. There is uncertainty. We need the adequacy laws, but the recent rulings of the European Court and our Court of Appeal on the Investigatory Powers Act give us uncertainty.

Mr Russ Shaw: Thinking about our Government and the previous discussion, the Culture Secretary, Matt Hancock, really understands this well. He has spoken about what he calls the seven pillars of digital. We talked about digital skills, cybersecurity, et cetera. I asked him which was his highest priority of the seven and he said, "Data". He said that we have to get this right.

A significant proportion of EU data companies are based in the UK. If there are changes or disruptions, one of the things I am looking at is the cost of data transfer and the amount of productivity loss we could see if we do not move in lock-step with the EU. The good news from my perspective is that he really seems to understand that.

Lord German: From what we know of the Commission's perspective, it believes we need an adequacy decision; it is going to be required anyway. It has said that in the meantime we could have a derogation in certain areas. Do you know anything about its proposals for what could be derogated, and would that assist, given the timescales you have just described?

Mr Antony Walker: We do not have enough clarity on that as yet. The best way to ensure clarity and certainty for businesses in the interim will be a status quo transition.

Q21 **Baroness McGregor-Smith:** Could you explain to us what your concerns are about the impact of Brexit on access to talent? Do the implications vary from large to small companies? Can you give us, say, three structured points on what the issues and solutions are?

Mr Antony Walker: Non-UK talent plays an important and significant role across the whole of the UK digital ecosystem. About 7% or 8% of

talent currently employed in the sector is from the EU, but what is really significant is the net contribution over the last few years. There has been a significant increase in the number of non-UK employees entering the sector at a time when it has been growing rapidly. That has been very, very important.

These are highly skilled and talented people, as we found when we surveyed our members. About 78% are educated to degree level and earn salaries of between £45,000 and £80,000 a year, so they have very well-paid jobs, and 93% are full-time employed in the sector. These people play a really important role. The sector is growing, so it needs more skills. The economy is digitising, so the economy as a whole needs more digital skills. There is increasing scarcity, and the domestic talent pipeline cannot meet the demand.

We have three concerns. One is about the status of employees currently working in the sector. We are pleased with the settled status approach; it is a good one and it meets most of the needs of those people. We just want to see it implemented as quickly as possible, so that they and their families have clarity and certainty about their future status.

Another concern is that we do not want a cliff edge when the UK leaves the EU. In the transition period, we would like a situation where EU citizens coming into the UK have the same right to claim settled status through that transition period, so that we do not have a sudden cut-off.

In that time, we have to develop a new migration system. What we are absolutely clear about is that the existing tier 2 system is not fit for purpose to cope with the change of status when we lose free movement. Those are our three big concerns.

Mr Russ Shaw: Building on Antony's point, I regularly survey my community. The No. 1 issue time and time again is shortage of talent. There is a real desire not only to bring in home-grown talent but talent from overseas, and that mixture is really important in building world-leading businesses. One of the things we talk about a lot is knowledge transfer. We have some great talent in the UK; this is becoming a digital nation, but we need to supplement it with very good, strong international talent that can bring ideas or expertise from wherever they are in the world.

To go a bit deeper, we spent some time with the Migration Advisory Committee, as did Antony, a few years ago. I did not understand why there were no digital and technology jobs on the UK shortage occupation list when I kept hearing that the No. 1 issue was the shortage of talent. The good news is that a number of jobs are now on that list: product managers, software developers, data scientists and cybersecurity specialists. We are going back to the MAC to say, "Let's refresh that and look to expand it". That can help us on the tier 2 side.

I travel to different parts of the world, and what we see reflected in some of our feedback is that talent that was planning to come here is now

thinking twice, because of what I describe as the soft power message. What is coming out of the UK on this thing called Brexit? Many people come to me and say, "We don't understand this. What does it mean? Should I be moving to the UK to take up a new job if it is all going to be confused for the next few years?" When I meet Ministers, I am always very mindful to say, "I know the next 15 months will be a tricky period, but we have to get on the front foot and project the message about the openness we have here, that we want to create a global Britain, and this is going to be a truly digital nation". We have to change the message. I am worried, and I already see examples of talent not wanting to come here because of it.

Mr Simon Hansford: In my business, about 5% of our staff have non-UK EU passports. That is low compared with the rest of the digital industry, in part because of sovereignty security. We have about 50 vacant jobs at the moment in a 200-person business. We need 50 additional employees. It is our biggest single inhibitor to growth. Clearly, if talent disappears or is harder to get, it becomes even more difficult for us. Undoubtedly, there is a big difference between small businesses and large international ones, and that puts us at a disadvantage as we go through Brexit. They have the name recognition. They have the recruiters and the investment to recruit. Similarly, they have training programmes. Typically, only about half of small and medium British businesses have structured training programmes. All of that puts us at a strong disadvantage.

We need access to talent. There are a lot of what I call superficial digital skills, which are awareness-type skills and basic use-type skills, but in our business and our industry we particularly need talent from schools and universities where there are deep engineering skills. It is not first or second-line support skills; it is not coders, but people who understand the engineering behind chips and networks—core physics.

Mr Antony Walker: To reinforce that point, domestic mid-sized firms are particularly vulnerable. The talent goes to all the well-known big global brands, for obvious reasons. Similarly, start-ups are seen as very attractive places for some of the most talented entrepreneurial young people; they are very interested in moving into start-up environments, but established mid-size businesses that do not have the brand, or sometimes the wealth-generation potential that people see in a start-up environment, have the biggest problem in filling roles. For businesses such as Simon's, it is absolutely the issue that most restricts their ability to grow and generate wealth and future jobs.

Lord Wigley: You mentioned that perhaps bigger companies can manage. At a meeting on Tuesday, the UK CEO of an international company of European origin said he felt that for the first time since 1974, when he came here, he needed to take out a British passport, which is fine; but his staff from continental Europe are now looking at going back, and he is finding it extremely difficult to encourage people to come here. What can you do and what can we do to get the message across that the

uncertainty will have a really serious impact if we are not careful?

Mr Russ Shaw: As specific examples, whenever we tell stories, have surveys or see things as facts and figures, we have to get that message out there. A *raison d'être* for my group is that we try to speak with that voice from the private sector to say, "This is what's happening. This is what we are seeing in start-ups and scale-ups", and amalgamate that with, "This is a big issue and problem, and it will only get worse".

Simon used a great example from his own story. I follow a job website called Adzuna.com. I check it every three or four months. If you do a search for software developer and IT jobs in Greater London, on average there are about 30,000 vacancies. That is just Greater London. That is the message to Ministers. That is why we need clear policy on immigration and visa strategy; that is why we need to lift the cap on tier 2; those are the specific numbers. We share the individual stories and testimonials, but then we roll it out and say, "This is the bigger picture". I have just given you Greater London. What does that mean across the rest of the country?

Hearing Simon speak about his issue, I sympathised—and I could hear that a few of you did as well—but we hear this time and time again. If we do not fill those jobs, businesses will struggle; the start-ups will not become scale-ups; the scale-ups will not become mid-sized companies; and we will have fewer larger organisations. We have to solve this problem now.

On the home-grown side, there is a great college in Tottenham called the Ada college, named after Ada Lovelace. It is the first national college for digital skills. Most of the funding is from the private sector, but the Mayor of London is behind it. I have said to Matt Hancock and other leaders that we need 50 more of those across the country now. Let us get younger people when they come out of college at 18, so that they can at least start to code and programme. Complementing that, we need more experienced people, the deeper engineers who understand it. But where are the people who are going to manage the teams? We need people who know how to manage teams of 50 or 100 engineers. That expertise is lacking, and it will slow down our productivity and competitiveness.

The Chairman: That touches on something that has been worrying me. You referred to the digital workforce pipeline. Why is it not working to deliver indigenous talent, and what do we need to do about it? Ada college is one good example, but it needs to be much more systematic than that. What are other countries doing that we are not?

Mr Antony Walker: In almost any other country, the same digital policy issue is playing out. The digital sector and the digital economy around the world is developing very rapidly, so everybody has this problem. The shortage of digital skills is a global problem. The UK has some specific problems and challenges, in particular the fact that we have never had compulsory maths to the age of 18. We know there are weaknesses in basic STEM skills. You cannot fix that problem overnight; you cannot

suddenly generate tens of thousands of new maths teachers overnight, so fixing some issues will be generational.

We have to recognise that there is a global race for talent in the digital sector. If we want to be a world-leading global digital economy, which many believe should be the vision post Brexit, we have to be open to the best global talent, not only because we need the talent in our market but because we need to bring in people who understand overseas markets. For example, we need more overseas students not just studying here but being able to work here and contribute to the growth of our domestic sector.

Sadly, at the moment the message going out around the world is not that the UK is open. We need to fix that. We need a turnaround in our ability to keep attracting people.

Mr Simon Hansford: It is a generational problem. We have to invest in core engineering skills in our schools and colleges, and it will take many years. If we are to make those investments pay off and help British industry, in the interim the only way is to keep our doors open and allow foreign talent into Britain, to help with the massive shortage of skills and the jobs that are required.

Mr Russ Shaw: There is also a diversity issue. This is a sector that is mainly white men. There are fantastic initiatives to encourage young women and young girls to study STEM subjects and get involved in maths, sciences and engineering, but in the start-ups and scale-ups I meet, 80% are men, and we have to change that. We have to work with the black and minority ethnic community to encourage more of them to come into the sector as well. We are doing ourselves a disservice. The most diverse companies are clearly the most successful and profitable. McKinsey just came out with another report. I have seen many over the years. Diversity, gender and ethnicity have to be part of the solution in the UK.

I certainly echo Antony's points about overseas students. It is very bad that we include those numbers in our net migration figures. The Prime Minister has just come back from a three-day trip to China. A third of our overseas students come from China. Why do we not let those students stay here for longer? Some of them will create businesses here and that will be the first market they trade with. Those are the corridors we want to start building from a trade perspective, and as we leave the EU it is going to be even more critical to do that.

Baroness McGregor-Smith: I have done a huge amount of work on diversity, on women and on race. I completely agree with your points, but there is a huge issue in the tech industries, because you need to be more open to individuals who are different.

Mr Russ Shaw: Absolutely.

Baroness McGregor-Smith: Speaking as someone of a minority race,

you are not open, and I would advise, certainly through your trade bodies, a much better understanding of how you can be open, because the talent is hugely there for you.

Mr Russ Shaw: It is.

Baroness McGregor-Smith: I worry about that. I wrote a report in February for the Government that lays out clearly what companies need to do. I have seen very little interest from the tech industries in that.

Mr Antony Walker: I am happy to follow that up with you in more detail, because it is absolutely one of our top board priorities. We have a big skills and diversity programme. We were one of the founders of the tech talent charter that was launched recently and which focuses on diversity issues. From board level throughout the organisation, this is now a really big focus. I agree that there is a long way to where we need to be, but I am very happy to talk to you in more detail about the specifics of what is being done.

Baroness McGregor-Smith: Everyone has a great policy, everyone says they are going to do it, but nobody hires them. The tech industries, which are growing so quickly, have a unique opportunity to embrace wider talent and diversity. I would look at the difference between having a great policy and hiring, because you can do it.

Mr Russ Shaw: I agree. I have spent a huge amount of time working on this issue. We have some great leaders and role models, and we are trying to make sure that what they are doing gets more support and investment. Mark Martin set up UKBlackTech. Amali de Alwis is leading an initiative to train 20,000 women in coding by 2020. My message to start-ups and scale-ups is, "As you look to recruit talent, don't just go to the pools that you or your investors normally go to". How do you find the diverse pools of talent that are out there?

I will leave this with you before I go. There are some great leaders out there. My message to the Government is: do not recreate the wheel; get behind what is already out here at grass-roots level. I can give you loads of examples of what is happening, but we are not moving fast enough and we are not putting enough investment behind it. I say to founders and entrepreneurs, "You will lose out because you will not build a successful business unless you recruit differently and think about diverse pools of talent".

Lord Mawson: I have spent 35 years in the east end of London, and there is a massive talent pool in our inner cities. Professor Brian Cox and I have spent the last seven years exploring it in a housing estate in the east end of London. We developed a whole summer school science programme focused on how Britain becomes the best place in the world to do science. What was a failing school has now become one of the most successful ones in east London around this whole area.

When you dig into it, you see all the silos in the Civil Service and

government despite rhetoric on this from different Governments we have lived through. We created an inspirational event for those children around science and engineering and brought in some of the best scientists and engineers to speak to them and, by the way, their families, because, if you are Bengali and you have never been to university, this is all a very strange world indeed.

We have to involve the whole community. We then have to connect it to the curriculum in the school. Then we have to get world-class universities, as we have done, out of their university bubble and into the housing estate and connect it to what we are doing on the Olympic Park at the moment; you will be aware of the massive Here East innovation hub, which is bigger than Canary Wharf. We are throwing a whole range of data at year seven. We are finding children and women with a whole range of talent.

Some of that is now starting to go national. We have replicated it in Cumbria. We are doing something in Daresbury with Sci-Tech. Despite all that happening—real-world practical learning by doing stuff, which your world knows about—we still have the silos in government, with lots of men sitting round tables talking about more women in science and more ethnic minorities. That is all over there and the real-world stuff is over here. None of it connects. There is no learning-by-doing environment. If I am honest, much of our Civil Service and government system lives in a world where people talk policy and are not attentive to the practical details of a learning-by-doing culture.

Last night, some of us were at a meeting with large businesses. We are necessarily going to have a period of great frustration. We need to use that period positively to articulate and exemplify the new world that is emerging, despite all this stuff. I am just wondering what effort and time is being spent—maybe you are doing this—to articulate and demonstrate in practice what this new world looks like.

Mr Antony Walker: In our industry, I see a lot of good engagement with schools, particularly in London and the south-east. I worry about what is happening in more rural parts of the country that simply do not have a similar level of exposure to people from the industry and some of the roles and opportunities that are available in a modern economy. I am from Northumberland originally. Few people go across the threshold of my old school with the kind of real-life experience you have just been describing. That is a real worry in terms of our ability to engage right across the country, not just in London and the south-east.

Mr Russ Shaw: I could not agree more. Part of the challenge, and part of what I personally feel is my role, is to bring more of what we are seeing, living and breathing every day from the grass roots to people like you. I have dropped in a number of examples. I have taken the Migration Advisory Committee chairman on a tech tour of east London and said, "Talk to these people. Come into these schools". There are great leaders out there. Maggie Philbin does TeenTech. You talked about events. She has thousands of kids coming together focusing on teen initiatives.

Sherry Coutu is leading Workfinder and Founders4schools. There are so many grass-roots initiatives.

On your point, we have to do this nationwide. I do not normally get involved with government organisations, but when I was invited to join the Digital Skills Partnership I said I would on the condition that we set up local groups around the country where we can learn and share whatever we are doing in London with what is happening in Newcastle, Manchester and Belfast. Let us see what they are doing and create a great pool of initiatives that we can share. Some may be relevant, some may not, but we have to do it now and we have to bring more people like you into the process.

Lord Mawson: I think I am on my eighth Government. Successive Governments, good people, talk about joined-up thinking and all this stuff. They are the right words, but in practice a lot of it is not happening. What we are describing will not happen and it will be held back. A global talent pool is living in east London, and many of them are British people. This is the moment to get real about moving beyond the silos and into a joined-up view of the world, or we will become ever more frustrated. This is our challenge. This is the moment to go for it. My concern is whether you or any of us are having that kind of conversation? Is the penny dropping in government and among civil servants about the importance of doing this now? Probably not. We will not crack the issues you are worried about unless we create these cultures.

Mr Russ Shaw: The one department where I see that is DCMS. I meet people there who seem to grasp that and understand that we have to move quickly, and the moment is now.

The Chairman: I have to move us back to the next big decision in the Brexit process, which is likely to be made in the next few weeks: the nature of transition.

Q22 **Baroness Randerson:** Looking forward, the Government and the EU appear to have rather different views on the transition period, which the Prime Minister calls the implementation period. Let us leave aside the fact that they have a slightly different concept of how long it will be; it is more or less two years. Have recent statements by the two sides in the negotiation affected your sector's approach to your Brexit preparations? Are you going faster, or are you still waiting?

Mr Antony Walker: Everybody in the sector wants clarity by March. We recognise that there is a process of negotiation from now until then, but at the end of it we need clarity. There has to be clarity at the end of that time.

We have been very clear about what we want from a transition arrangement. We want a status quo transitional arrangement. If we are to make a success of Brexit, we have to be able to prepare and plan for it, so we need that time. The Government need that time for what they have to do. I think there are 30 different IT systems at the UK border

that will need to be either replaced or modified. That does not happen quickly. In addition, companies themselves have to put in place their own IT systems in order to be compliant with new customs arrangements and so on.

Government and businesses both need time if we are to make a success of Brexit, so we believe a status quo transition would be the best. As to timescales, we think two years is the absolute minimum required, and that is highly ambitious to get all the changes we need put in place.

Mr Russ Shaw: I echo that. The advice I give to start-ups and scale-ups is to try to do some degree of contingency planning. We need clarity. I always say, "Assume we lose freedom of movement and passporting rights but don't move your headquarters". I did that once in my career running a later-stage start-up. It nearly killed me. Think twice about that. Running a business in the UK is far more straightforward than it is in continental Europe. I say, "Don't move your HQ, but at least look at opening up an office in an EU market so that you ensure that your business can operate successfully".

It is very easy in comparison to hire talent here. When investors invest in start-ups and scale-ups, they ask what happens if they have to shut down the business because it is not working. It is relatively straightforward in the UK; in some markets, such as Germany and France, it is a nightmare. I have been there; I have done that. I would never want to do it again. Those are some of the practical things we are saying to entrepreneurs and founders in the broader environment of uncertainty and wanting a longer transition period that Antony described.

Mr Simon Hansford: For me, it is the uncertainty that absolutely kills us. We have multiple multimillion-pound investment decisions that need to be made, but they depend on capital, certainty and access to people, so we need that certainty shortly. Few British SMEs have either the will or the resource to invest in the unknown. We do not have the ability to plan for the unknown; we are busy enough today. We are at a disadvantage compared with some of the large global companies that have the ability to plan and, therefore, could be a step ahead of us once we get to a known state.

The Chairman: We are going to move on to the possibilities and opportunities in various scenarios.

Q23 **Baroness Noakes:** We will first pursue the challenges for your sector if we do not get a deal, or an attractive deal, and explore the issue of contingency planning for a poor outcome as you would perceive it. We know what you want to get, but let us assume that you are not going to get it. I think I am hearing that some organisations will be unprepared for that. How widespread do you think that is, and is it as simple as opening an office in a European country?

Mr Russ Shaw: It certainly goes beyond that. I often meet people who are working 14 or 16 hours a day just to get their businesses up and

running and off the ground, and to grow them in size and scale. Contingency planning around Brexit is not high on their list of priorities, although it probably needs to be. These are some of the messages we are trying to share with them. The one I gave you was to think about opening up another office.

If we go over a cliff edge, it will be immensely disruptive. The entrepreneurs I meet say, "We will just get on with it and make the best of it", but it will be a very disruptive process for a number of them, particularly those in the fintech sector. That is one of the most vibrant aspects of our tech community in London. Many of them will want and need passporting rights, and will struggle without them. Interestingly, one of the bright spots for me is that the Financial Conduct Authority gets high marks for trying to think through creative solutions from a regulatory point of view to help the broader financial services industry, and specifically what I see in fintech. There will be a very disruptive period if we have a cliff edge.

Mr Antony Walker: It is quite hard to think through a no-deal scenario, because it would be so disruptive. To take data flows, for example, if suddenly there are genuine uncertainties about the legal basis on which you can transfer data across borders, some larger companies may have structures that enable them to get round that, but many of the mid-sized and small companies will not. They will suddenly need quite a lot of legal advice. They will have to start rewriting their contracts in an environment where their contracting parties in other member states may say, "We're not sure about this. We will go and find a different supplier or a different partner".

Baroness Noakes: As a trade body, what are you doing to prepare your members?

Mr Antony Walker: We are trying to raise awareness of the issues and concerns, but our members want us to make the case to ensure that we do not have a no-deal scenario. We are fully engaged across UK Government and European level to make people understand that this will be a highly unpredictable scenario for the UK economy. It would clearly be a shock to the UK economy. It is not just the implications for companies; it is what happens to their customers. What happens to broader business confidence and business sentiment across the economy? What is going to happen at the borders? Are we going to have problems getting goods through customs?

Some companies are investing in more warehousing so that they can hold a bigger inventory in the UK. Some companies are looking at where they locate their data to try to minimise disruptions there, but the scale and complexity of no deal is so great that it is genuinely hard for companies to think it through and mitigate. Many take the view that it would be such a negative outcome for the UK economy that somehow it will not happen. That is probably what many people believe from a business perspective.

Mr Simon Hansford: We have talked about data flows and talent, but customs is absolutely key, too. Our IT industry spends a significant amount of money on IT hardware and software. Almost all of that comes in through either Ireland or Amsterdam. We spend tens of millions of pounds on hardware each year and all of it comes through Amsterdam. Will there be delays in receiving that equipment, and additional costs and additional regulation? It is all a big unknown to us today.

Baroness Noakes: Let us finish very briefly with opportunities. We had written evidence from UKCloud that not having full convergence would possibly be a good boost to the sector, because it would become more innovative and think of new ways, which I think departs from the core message that we should stay together and, if there is any divergence, it has to be managed divergence. I would be interested to hear where you think the balance of the argument lies.

Mr Simon Hansford: All of us want to look for the opportunity. It is very easy to focus on negativity, concerns or doubt. We think there is a big opportunity. As a hosting company that looks after data, potentially there will be a lot of uncertainty about data that sit in Europe that could be brought home here. It is easier; it is simpler and it is a single regulation.

Similarly, we think that for the wealth and health of our nation, data becomes a new currency. There is a massive opportunity not only in jobs, investment around data centres and networks, but in what sits on top of data. One starts seeing new analytics and insights. We have a rich data economy where data reside locally. We can start getting insights and new businesses that form through that opportunity. It is something the Government need to look at, and it ties very well into lots of parts of the industrial strategy, but it has not been fully thought through.

Mr Russ Shaw: I encourage people to look beyond the EU for markets to expand to. The US is obviously a natural destination, but it is tougher than it seems; it is 50 states, each with its own tax regime and regulatory environment and, sadly, the current feeling on immigration in America is not very welcoming, which I think puts people off.

The Commonwealth is an opportunity. The Commonwealth Business Forum is taking place in April. That is a really good thing to get businesses to look at Australia, New Zealand, Canada, South Africa and other countries in the Commonwealth.

China is a very difficult market. There are some breakthroughs starting to happen. The FCA has worked on the sandbox initiative, and I believe that China is one of those markets. In Chengdu you can set up a business in a relatively straightforward way. There are markets around the world. We are encouraging start-ups and scale-ups to look at them in addition to the EU.

Mr Antony Walker: As an organisation, we are investing in our trade support capability. We are bringing two new people into techUK to focus on that. There is lots we can do within our existing trading relationships

to start building networks and opportunities. We do not have to wait for new trade agreements to do that; we can do it straightaway. That is starting to happen. We are engaging quite well with DIT on that.

We got some government support to take 15 small UK companies to the big consumer electronics show in the US in January, which was great. However, our French counterparts took 150 companies, funded by the French Government. There is more that government can do to bring scale to their trade support activities.

Clearly, there are global opportunities. We see the UK as a global leader in many areas of digital and technology innovation, and we can do more to bring that to a global market, but the reality is that our biggest and best market, and the one we are most integrated with, is the one closest to us, the European Union. We want to make sure that we are able to trade freely and with as little friction as possible with that very significant and advanced market.

Q24 The Chairman: We are reaching the end of the time. I am however going to abuse the position of Chair and ask you a question that has been worrying me throughout. Our last report was on competition, and our immediate pre-Brexit report was about online platforms, focusing very much on the domination of large companies. I am wondering whether much of the supply of talent is being hoovered up by the big companies and whether much of the innovation in smaller companies is being swallowed up by takeovers or buy-outs of innovative companies. Is there a problem with the structure of the technology industry, dominated as it is by the big five, Google, Facebook, Apple and so on? A yes or no answer will do.

Mr Russ Shaw: It is becoming a problem. When I talk to smaller businesses, they echo the concern that some of their talent is leaving to go to the bigger tech organisations because they can pay more and invest more. That said, the big tech companies are an important part of the ecosystem through the money they put in to support start-ups and scale-ups. There are issues and challenges, but also opportunities for innovation. It is something we need to watch as the big tech companies get bigger and make more money. We are going to see a lot more disruption, and they will have to play a role in helping to fund how we deal with it.

Mr Antony Walker: Competition is fundamental to the sector. It is vital that competition authorities pay close attention to what is happening across the sector and understand the way it works. If they are identifying problems, it is absolutely right that they should address them. I would not underestimate the fact that tech is not really a sector; it is an ecosystem. In the history and lineage of tech companies, time and time again new companies are spun from talent or ideas that came from big companies.

We have to see the sector as an ecosystem, and what we want is a healthy ecosystem. It is not about the balance between small and

medium; it is just making sure that the ecosystem itself is healthy and that it supports renewal, innovation and growth across the piece. That is what competition authorities and policymakers should focus on. Think of it as an ecosystem.

Mr Simon Hansford: Our Government have a massive part to play. Through procurement, we can help British industry. Today, too many of our politicians and senior civil servants are, quite frankly, in love with the glamour of American technology companies. Their senior executives have instant access. As a British industry, it is very hard to get credibility and to get access, and procurement needs to change to help us.

The Chairman: That is very interesting. Thank you very much for that and for all your contributions. It has given us a good feel for where we are. Things are moving rapidly. We will come back to you. I have just been reminded that the European Commission has put on its TF50 site its position on non-financial services. This is the first time we have seen its hand on that, so any feedback from yourselves or others in the sector would be welcome. Thank you all very much indeed for your time and input.

Examination of witnesses

Mr Tom Jenkins, Mr Kurt Janson, Ms Vivienne Stern and Mr Steve Lowy.

Q25 **The Chairman:** Welcome, all of you. You represent a slightly diverse group, all of whom are interested in the movement of people and the industries and benefits that come from that. I am glad to see all of you. Would each of you briefly introduce yourself and register your key concerns? I remind you that you are on record and that the hearing is being broadcast, albeit to a very select audience.

Mr Tom Jenkins: I represent ETOA, which is a group of companies that was formed to sell Europe as a destination throughout the world. We are mainly but by no means exclusively based in the UK. Our concerns are fairly obvious.

Ms Vivienne Stern: I am the director of Universities UK International, which is the international division of the body that represents vice-chancellors of UK universities. Our biggest concern relates to access to talent, principally academic and professional staff and students. We are also concerned about the ability of UK universities to provide education across borders, and to continue to operate collaboratively in research, which is essential to the UK research base.

Mr Steve Lowy: I am chairman of BETA, which is the British Educational Travel Association. Our membership is very varied, covering youth and student educational travel, which is everything from school group operators to accommodation providers for students to volunteering companies and internship providers. It is a really wide mix. Our biggest concerns are around the welcome, and Britain still being seen as a No. 1

destination for education and experiential learning; employment within the tourism sector, which is becoming an issue for some of our SMEs across the UK; and, finally, joined-up thinking to make sure that all policies across different departments allow young people to come to the UK and become brand ambassadors in the future.

Mr Kurt Janson: I am the director of the Tourism Alliance, an umbrella trade association for the tourism sector, which brings together 55 trade associations and membership organisations across the entire remit of tourism, be that inbound, outbound or domestic.

Just after the referendum, we undertook a survey of our members across the sector. Our members represent about 200,000 businesses in tourism. The three priorities that came back as a result of that survey were to retain as much as possible the existing travel arrangements with the EU; to maintain access to EU workers; and to maintain access initially to EU funding that goes into tourism-related products and services, and to have new funding structures set up to ensure that there is a transition from EU funding sources to UK funding sources when we leave the EU. We surveyed our members again the other day, and those three priorities remained consistent.

Q26 **The Chairman:** Thank you very much. Our report appeared several months ago and there were varying views on how well people were engaging with government at that point. Could you fill us in on how you have engaged with your respective government departments about the implications of Brexit and your concerns? Are there any areas you wish government to address in the coming months? I am particularly interested in what has happened in the last month or so, since 8 December, when phase one of the negotiations was pretty much concluded.

Mr Kurt Janson: From my perspective, the engagement has been good. Just this week we had a meeting with Matt Hancock, Michael Ellis and Steven Baker to talk about the implications of Brexit for the tourism economy. Having two Ministers and a Secretary of State in the same room talking to the industry shows a very good level of engagement, and we are very hopeful that they have taken on the needs of the tourism industry. How that translates into the negotiations is where we have concerns. It is not a matter of officials and Ministers not caring and not undertaking negotiation with the industry, but how that translates into the negotiations with Europe.

Mr Steve Lowy: As an association, we work through the Tourism Alliance to try to get our voice out there on behalf of youth tourism. In the competitive world out there, against which we are working, Australia, the USA and Canada have dedicated resource in government to look at youth mobility, whether it is students in higher education, school groups or people coming for a tier 5-style youth mobility work visa. That is not something the UK has or does at the moment.

To be here is a great achievement for BETA after 12 years of existing as a not-for-profit association, so thank you for the invitation, but there needs to be more attention on the youth travel sector; the youth traveller today becomes a business traveller tomorrow, even if it is for only one or two weeks. Young travellers stay longer, they spend on average more than the average business traveller, and they disperse their wealth across a country, or even a community. If it is understood across government and communities that that is an important part of a sustainable tourism industry, it will help us to make decisions in the future that help the whole of the UK, and not just London.

Ms Vivienne Stern: We have engaged extensively with not just our home government departments, BEIS and DfE, but directly with DExEU up to and including Secretary of State level. The chief executive of Universities UK, Alistair Jarvis, sits on a high-level forum convened by our Universities Minister and we have contributed several policy papers to that group, whose impact we have seen on government positions. We have been very pleased indeed with the extent to which the concerns of the university sector have been recognised in statements from the Prime Minister down. On the European side, research collaboration and student exchange have been noted as matters of significant interest.

We have been engaging with other government departments on the post-Brexit landscape. We have a detailed programme of work around the opportunities that might present themselves as a result of future trade agreements. We have good relationships with the DIT. I sit on the DIT's education advisory group. I am also a member of the UK Skills Partnership, which is a new initiative to promote what the UK can offer in the skills space internationally. We are very engaged in discussions about how the Government's education export target can be reached.

I want to make two points. First, there is an ongoing problem with co-ordination between government departments, particularly on the proactive, post-Brexit, succeeding-in-trade agenda. Secondly, our biggest problem has been the time it has taken to achieve clarity on topics that are of significant interest. One issue that I want to emphasise particularly is that we are well into the recruitment cycle for European students who will start their studies in September 2019. Right now, there are universities going to recruitment fairs across Europe and talking to students who are interested in that entry date, but we cannot yet say what fee and loan arrangements will pertain at that point.

If we enter a transition phase of the type that has been described, it is inconceivable to me that the guarantee that European students will still have access to UK fee and loan arrangements in 2019 will not be extended. The delay in making that clear is nonsensical. It is particularly frustrating now that the Scottish Government have made it clear that students studying in Scotland from 2019 will be treated in the same way. The speed at which we are getting clarity on these key issues, where we feel the Government have space to act, is a frustration for us.

Mr Tom Jenkins: I should have disclosed at the beginning that for the first time in 25 years my association is performing a contract for the European Commission. That may colour your perceptions of what I am about to say.

We are engaging with Government. We have met the Migration Advisory Committee, the Treasury and DCMS. I echo my colleagues' opinion that they are taking the situation very seriously, but, in truth, it is very difficult for them to engage with us and for us to engage with them when no one has a clear idea of what is happening. There are no concrete proposals on the table, and when I go over to Brussels, which I naturally do quite a lot, I find there is a complete code of omertà in Brussels at the moment; no one will discuss Brexit. Perhaps it would be nice if it was echoed over here, but that is perhaps a wish too far.

The crucial point is that it is an often-spouted myth that tourism jobs cannot be offshored. There is no doubt that a whole swathe of jobs at the moment in the UK are being performed by non-UK EU citizens, and these are largely at the point of delivery. If I was to survey my supply members, they would tell you that up to 90% of staff at the delivery end come from the EU outside the UK. From my members' point of view, there is very much an adding value by packaging function; between 10,000 and 15,000 people are engaged in that activity in the UK, and about a third come from outside the UK but within the EU. These people, polylingual graduates, are absolutely vital to those businesses functioning. You cannot sell to Europeans and you cannot properly buy from Europeans unless you speak the language. We can raise the point of whether we can skill our native population up to that level, but we are not in a position to compete with Bulgaria and Romania to produce Bulgarian and Romanian-speaking graduates.

One of the great threats facing my industry is the rapid evolution of English-language courses in European universities that are producing perfectly Anglophone-competent graduates who can set up Anglophone companies in eastern Europe. My members now are offshoring very rapidly, partly as a result of Brexit, to have operation decks in Budapest, in Bucharest and elsewhere, fully English language-staffed at one-third of the cost of the UK. That is without Brexit.

Q27 **Baroness Donaghy:** To an extent, some of you have partly answered my question, which is about the impact on the numbers of non-UK European staff working or seeking to work in your sectors. What has been the impact, and what actions, if any, are you taking to mitigate any downward impact or to take advantage of any opportunities?

Mr Kurt Janson: The tourism industry as a whole employs 3.1 million people, about 9% of the total UK workforce. We have been in the great position over the last decade of growing year by year and employing up to about 100,000 new additional employees each year, which has been fantastic because tourism jobs are spread throughout the country; they are not congregated in key areas. We have done a good job of creating employment throughout the country.

At the moment, we are struggling, and that is while we are in the EU. To give you an example, inbound tourism to the UK this year will increase by about £2.5 billion, which is very nice for the UK economy. That will create about 40,000 new jobs in the UK economy. Just on the inbound tourism side, we need 40,000 new people. At the same time, we have people who are uncertain about what their future residency will be if they come to the UK to work. They do not know whether they are welcome to come to work in the UK, they do not know what their future prospects will be, and we have just given them a 15% pay cut with the depreciation of the pound.

People 1st, formerly the Alliance of Sector Skills Councils, reports that there are now more than 10,000 permanent vacancies in the industry, and we need another 1.3 million people by 2025 in the industry to replace people moving on, and for the additional jobs. If we are struggling at the moment to fill those positions while we are in the EU, when we come out of the EU the situation will be far worse. A lot of businesses are struggling to understand where they will get new employees, especially when we have an unemployment rate of under or around 4%. There is now only a small pool of people in the UK with the skills and motivation required to take on those jobs.

Mr Steve Lowy: We surveyed our members just before Christmas, and we found that about 35% of staff were non-British EU workers, which equates to about 2,000 staff spread across very rural England and city centres. The biggest issues are entry-level jobs, whether it is housekeepers in student accommodation, junior chefs or multilingual speakers to help with foreign students coming over for summer camps and language learning.

Because a lot of our members are SMEs, they do not have the infrastructure necessary to do training, or even to source staff in a more aggressive manner. There is a lot of concern for people growing their businesses, even though there is a demand, as Kurt highlighted, because they do not know whether they will have the staff to fulfil their service or provide their products. We will probably cover it later on, but that uncertainty is certainly halting growth in the SME tourism sector, particularly around youth tourism.

Mr Kurt Janson: It would be wrong to think of the 100,000 new jobs we need a year as just for low-skilled, low-paid chambermaids or bar waiting staff, that type of thing. It is the whole gamut of jobs right through from hotel managers. A very large part of the tourism industry is the tech industry, which you have just heard from. There are also areas that you would not think of; one of our members is the Historic Houses Association. It reports that 15% of the archaeologists who work in the UK are EU nationals and it is finding it very difficult to get archaeologists into the country. There is a £10 billion industry in the maintenance and repair of historic houses. People with the craft or trade skills to repair historic buildings are ebbing away because people are not coming over from Europe.

Ms Vivienne Stern: That end of the spectrum is often forgotten in the debate about universities and access to talent. There are 13,000 EU staff members working in universities in professional roles, so, although we talk a lot about access to academic talent, and that is incredibly important to us, it should not be forgotten that, alongside my colleagues, we have EU nationals working in catering, accommodation and the technical roles in universities that are quite hard to fill from a domestic population, such as lab technicians. Despite a lot of effort, it has been hard to fill those sorts of posts.

There are lots of EU nationals doing the jobs that keep the lights on in universities, and we should not forget them. University leaders have tried to reassure EU nationals who are currently working in the UK that we are not going to forget about them and that we value the contribution they make. The total European staff population in universities is 49,000, and of that about 35,000 are academic staff. In some disciplines and in some institutions, the dependence on EU academic staff is much higher. Although the average across the sector is 18% in some disciplines, without access to EU academic staff, it would not be possible to deliver programmes from which UK students benefit.

There have been some indications recently that the turnover in EU staff has been higher than in the past, but the most recently published national data do not show that, so, although there is significant reason for us to be watching this very closely at the moment, we think there is no clear evidence yet of a systemic pattern. Individual universities report that they have lost a lot of EU staff and are struggling to replace them. Others say that they have appointed more staff than they have lost. The most recent survey by the Universities and Colleges Employers Association—the UCEA—which was published in July 2017, reported that they saw no system-wide effect yet. It is something we have to keep an eye on.

Baroness Noakes: How much churn is there in that EU population? Is it a rapidly changing population of staff, employed in either academic or non-academic roles, or is it a largely stable population with churn at the margins like any workforce?

Ms Vivienne Stern: It depends on which staff group you are talking about. For example, among early-career researchers, it is normal for people to move around the system quite frequently. In non-academic and support roles, you would expect a greater degree of stability, a bit more like some of the other sectors that are represented here. If you would like a more detailed analysis, I could ask the UCEA to provide some data, but you would expect turnover.

Mr Tom Jenkins: I agree with everything that has been said. There are three points worth making. We benefited enormously from having these people come here, and I do not think anybody would disagree. What has been peculiar is that, throughout Europe, it is a good career move for young people to come to the UK and do any job. They come here and do any job for one to two years to improve their English, and to prove that

they are cosmopolitan and they understand the UK. This is a good thing to do. Some people may judge it as exploitative, but in general it is something that London in particular and the other metropolitan cities have benefited from enormously.

Secondly, the UK has for the last 10 to 15 years been the destination for ambitious graduates throughout Europe to come and work. We had a huge array of top talent coming to this country eager to work here, make this place their home and base their careers here. The fact that we are seeing a sudden shrinking of that talent pool from 500 million people down to 60 million will be a substantive shock to the system.

The last point is about productivity. This is a difficult thing to say. In some ways, the fact that people come long distances, separating themselves from home, is almost a barrier that they have to get across to prove their motivation. I employ only about 30 to 40 people, but the most motivated people throughout my industry are those who almost prove to their employer and to the industry that they are prepared to make big sacrifices to obtain and do that work.

Those three things have been a real asset to the economy. Have I noticed anything that has happened recently? Yes, anecdotally, undoubtedly, we have seen a shrinking in applications for positions, both those on the more casual side and those in long-term careers.

Baroness Donaghy: We do not know what government policy on immigration is going to be—if you know, perhaps you would tell us—but there has been a lot of emphasis on the importance of skills and talent at the higher level. In your industries, will there be a severe impact on what is seen as the slightly lower skilled or refurbishment/construction level, which I think Kurt referred to? Do you think enough work is being done to convince government that we need to boost staff at that level, too, for the economy?

Mr Tom Jenkins: The first thing in that skill set has to be languages. To regard the speaking of a foreign language as not a skill set is ridiculous, particularly as we are really bad at it in this country. Secondly, to echo the earlier panel, the tier system is not fit for purpose. We have done a survey. Most of my members do not have a big problem, partly because they fill vacancies with EU citizens, but, of the 16% that have used the tier system, 85% said they would not use it again. It is not something you want to go through.

Mr Kurt Janson: Certainly for the tourism industry, to echo Tom's comments, the migration system as it stands at the moment is not fit for purpose. The industry, especially on the hospitality side, struggles to get chefs into the country, because the system is based on academic qualifications and pay levels rather than on technical skills. It is very hard to get people with technical skills who are paid less than £30,000 a year, as a lot of the tourism industry is, into the country. We will have a real skills shortage in that area.

Mr Steve Lowy: I worked and trained as a chef in my younger years. It is a skill, and it was changed a number of years ago. Given our massive food industry in the UK, it could really cause problems. A lot of restaurants have reported huge issues with getting talent. It would be great if there were a lot more young British chefs, but the volume of people needed is probably not going to happen in the short term.

Some of you may be aware of the tier 5 youth mobility visa, which works very well with the Australians and people from New Zealand, America and Canada. One of the potential opportunities, post Brexit, without jumping ahead, is extending that to the European Union and to include skills such as cheffing and languages, so that we talk about youth mobility in a positive way. Obviously from a university level, a pure academic visa system is massively important, but for people who want to have one or two years working in the UK to build their career, become a brand ambassador and potentially set up a business, the tier 5 youth mobility visa, which works at the moment for a number of countries, could be opened up globally, and that would obviously include the EU as a single unit.

That would probably allow things to happen. However, as we know, visas not only take a while to get in place; it takes a while for people from abroad to understand them. One of the big problems we have at the moment is that the visa system is quite prohibitive to people because it is difficult. Our studies showed that 20% of the students who considered coming to the UK for either a tier 4 or tier 5 visa programme did not come because of that. Our industry is worth £22.3 billion, so that is about £4 billion of lost revenue. Having run businesses, I know you do not want to do that, so we need to ensure, whether it is through transition or as soon as possible, that we have clear, simple guidelines across all the visa tier systems so that we have enough skills across all levels of the business to sustain a massive industry in the UK.

Ms Vivienne Stern: The tier 2 visa category, into which international graduates would switch if they wanted to stay and work in the UK, applies salary thresholds that are intended to indicate graduate-level skills. Those salary thresholds are out of keeping not only with average graduate starting salaries in many disciplines, particularly creative disciplines, but in some other specific professional areas, where they simply do not reflect what you are likely to earn as a graduate.

Secondly, there is a failure to understand that in the case of many UK-domiciled graduates the first couple of years of your career are likely to be pretty exploratory. I graduated from Cambridge and I consider myself now to be in a job that requires high-level skills, but I spent my first year being a glorified receptionist, and I learned a lot from that. We have allowed our visa system to apply something that intellectually we know cannot really be a reflection of graduate pathways.

The result is that we are fishing in a smaller pool to attract students who might consider studying in the UK. We know that because, when we ask graduates or students who have chosen to study in the UK what is

important to them, a lower proportion of students studying in the UK say that post-study work is important to them compared with students who are in the US, Canada or Australia. That does not mean that somehow what we are offering is fine. It means that the majority of students for whom some sort of post-study work experience is an important part of their journey just rule us out; they go somewhere else. We are appealing only to students for whom that is not a primary concern. That is a bit of a tragedy, and it is a deliberate policy choice.

Lord German: Can I take you outside the EU? I fully understand your focus on the European Union at the moment, and I hear your case for complete reform and replacement of the system that we have for people outside the European Union getting work and placements in the UK. I will not press you on free movement and that reform, and the nature of the difference between the two, but I wonder if you could just tell me about the competitors.

Has there been any thinking about how you now do business with the rest of the world? If so, do you have government support to do that, given that it is a primary government objective? What sort of regulation is there, apart from the tier system? Do you think the regulations and the regimes that we currently have, which are restricted by our membership of the European Union, could be altered to help you to work outside the rest of Europe?

Mr Kurt Janson: One of the opportunities that comes to mind is the regional air connectivity fund, which the Government set up to kick-start new air routes in and out of the country. Under European legislation, it is restricted to airports with under 5 million passengers a year, and mostly to airports with under 3 million passengers a year, due to state aid rules. Once we leave the EU we can look at that again, boost the regional air connectivity fund and develop new routes to other destinations around the world. We can link that with the DCMS Discover England fund, which develops product at home, and with the GREAT campaign funding for marketing in overseas countries. We could get those three Government funds all linked together to develop new markets.

Lord German: Would that require a scale-up of those funds, if you put them all together?

Mr Kurt Janson: It is always nice. The only one that really needs scaling up is the regional air connectivity fund. There is quite a bit of money going into the GREAT campaign and the Discover England fund, but the regional air connectivity fund is low scale and needs to be boosted. That is the key fund because it links the other two.

There are also opportunities, once we are outside the EU, around the package travel regulations the Government are putting in place at the moment. The regulations were very poorly drafted, such that if you are a bed and breakfast in the UK and you want to work with a local historic house and you say, "Come and stay at my B&B for £100 and I will give you a couple of tickets to the historic house", by EU law you are deemed

to be a tour operator and responsible for every aspect of that tour. If something goes wrong for the customer while they are at the historic house, heaven forbid, it is the B&B owner who gets sued. That stops small domestic tourism businesses in the UK working together to provide value-added products for UK residents, so consumers miss out and businesses do not work together.

We have worked out that the net drop in revenue for the UK economy is about £2.2 billion a year and 40,000 additional jobs. A small amendment, which we are pushing BEIS to make at the moment, to say that a package has to include transport, so that it still protects people going overseas and coming into the UK, would take those small businesses out of the regulation and provide significant benefits to the UK economy. That is another very good thing that we could do.

Mr Steve Lowy: From a youth travel perspective, the opportunity is to try to get the UK to regain its place as the No. 1 place in the world to learn English. We have lost that slightly over the last couple of years. That includes a simplified visa system, as I talked about before, but it is really about understanding the lifetime value that youth travel brings. There is demand from China for the UK and there is demand from the States. In the business I run, we look after 3,500 American students a year who come to study, live and work in the UK.

We want to ensure that there are no further restrictions on people being able to come to do those programmes, whether for a semester or a summer. That is essential and the opportunity is there, but it will require investment from government, not just to publicise the fact that we are open for people to come here, but so that we have the policies in place across departments to allow those people to come. There is no point in advertising that Britain is welcoming but then people find that they cannot actually come into the country. Joined-up thinking is the opportunity to do that, without the restrictions of the EU, and having direct agreements with the US, Canada and Australia rather than via the European Union.

Lord German: If someone from the US came to the UK under the new system and they wanted to travel to the rest of Europe as well, would they need another visa to get into the European Union?

Mr Steve Lowy: Yes. Often those countries are part of Schengen, but as we are not part of Schengen we already have that restriction in place. I suppose that in negotiations with the EU we need to make sure that transition from the UK to Europe is as easy as possible for American students, but they still have a restriction because they are on a different visa for Europe compared with the UK in their tier 4 study visa here.

Mr Kurt Janson: One restriction that could come in is that both the UK and Europe are looking at introducing an equivalent of the American ESTA system, an online pre-check programme. If a visitor from a third country wants to go on a European tour that includes the UK and Europe, and in future we both introduce those systems, there are another two

levels of complexity that the customer has to go through. That means that tour operators will tend to drop the UK from a European tour because of the hassle factor, and just start European tours over in Europe. That would be problematic.

The Chairman: You say they will, but have they already?

Mr Tom Jenkins: Yes. Very simply, there is a wonderful idea, which I wholeheartedly embrace, that Brexit will suddenly lead to an outbreak of wonderful, good government in the UK, and one thing that might well happen is in the visa area. The Schengen visa is three pages long and gives you access to 21 countries, whereas ours is 10 to 11 pages long and gives access to one country. Switzerland joined Schengen formally in 2004-5, and in the following 10 years its arrivals from India doubled. Our arrivals from India went up by 4%. We have a good example in the visa system of the UK going it alone outside Europe, and it is not a pretty sight, but it is possible with this new change of regime that we might suddenly start looking at these problems seriously and get better at them.

Ms Vivienne Stern: We have talked a lot about students coming to the UK, but we should look at UK education export earnings. Education exports are our sixth biggest service sector export, and that is a huge opportunity for the UK. Onshore recruitment is the biggest component of those earnings, but it is not the only thing. We have seen a phenomenal growth in the provision of UK higher education overseas. We now have about 710,000 students registered on UK programmes in other countries.

The figures on the value to the UK of that sort of activity are very sketchy, and one thing we have repeatedly said to DIT is that it should address the quality of our education export data. If DIT wants to know how to do it, it can simply look at the Australian system, because the Australians have it right. It is a very significant sector of our economy, and it has been growing enormously fast. We have just published a report that shows that UK TNE grew 13% in the last two years. It is extraordinary.

There are other things—for example, contract and consultancy work by UK universities for overseas companies or Governments. English language training is a massive opportunity for the UK. There is a lot that we can learn from the experience of some other countries in negotiating free trade agreements that create access and opportunities in the education sphere. We published a report about six months ago that describes the education provisions in some existing free trade agreements, but under all four modes, the education sector has something to say, from visas, which we have discussed, to the delivery of online provision in education. Branch campuses are another feature.

We do not, I think, fully understand how to make this work. We are learning ourselves as a sector about free trade agreements, just as everybody else is. The Department for International Trade is only beginning to become familiar with how the sector works. I echo the

comments made about the GREAT campaign and how important that is. The Government are beginning to do a better job of promoting UK services overseas under that umbrella. In the education sector, we have a strand of that campaign, "Study UK: Discover You", and it will eventually promote courses that are available outside the UK. There is an opportunity, but we have a lot of work to do to get our act together to make the best use of it.

Baroness Randerson: I need to declare an interest, Chairman; I am pro-chancellor of Cardiff University.

Ms Stern, you have talked about students, academics and courses. What about research collaboration? Is there any work available yet on levels of research income? How much collaboration with universities abroad is there in comparison with the past, and where might it go in the future?

Ms Vivienne Stern: The first point is that international research collaboration is highly correlated with the impact of research. Broadly speaking, if an article is produced with international co-authors it tends to be more fully cited. Those things feed into the UK's reputation. In so far as you can measure comparatively the quality of the research performance of different systems, the degree to which research is collaborative across international boundaries is a good indicator of whether a system is high quality. We want to do more of it. The UK has been in the forefront of that.

I mentioned that access to talent was the most important consideration in respect of Europe. In all the discussions we have had, both at the European level and in the UK, we have emphasised that for us it is inconceivable that the UK system should lose access to the framework programmes for research in Europe. They are unprecedented. There is nothing like the framework programme for research. More than half the internationally co-authored research that we conduct is done with European partners.

What the framework programmes allow, which almost no other mechanism makes possible, is multilateral collaboration: co-operation not just with partners in one or two countries but across the whole of the membership of the programme. I am glad that the UK Government seem to have got that message, and from Theresa May downwards I think we have seen a commitment, if possible, to make collaboration in research a key plank of our future relationship with Europe. That view is shared at the European level, and we have seen many encouraging statements. We just need to make sure that it is not sacrificed for political reasons.

There are things that we could do to further enhance international research collaboration beyond Europe. In the last few years, the Government have introduced mechanisms to fund collaborative research with emerging economies as part of our ODA strategy, so new programmes such as the global challenges research fund and the Newton fund have made it easier to work with counterparts in India, China and Peru, which is a new one.

We lack a co-ordinated approach to systematic support for international research collaboration with advanced economies. I am glad that BEIS is now thinking about it. It is not that there are no structures in place, because there are lots of agreements between individual research councils and their counterparts; but, if this is important to us, there is an opportunity for us to think about how we make sure that more of it happens and that it is as easy as possible. If we want to be the best place in the world to do research, we should have the most open system for international collaboration. We need the Government to develop a strategy to help us achieve that.

Lord Mawson: I want to push back a bit into the visa question because I think the clues to this are all in the three-page or 11-page question. I am looking at the moment at a charity in this country that has one full-time member of staff and two part-time members of staff, and I discovered that more than 40 pieces of bureaucracy from government are landing on that small charity's desk. It is trying to do a good job in a local community, but it is overwhelmed by that. It is just one charity. The same thing applies to SMEs. It is a practical problem, as is what you described in the three-page and 11-page visa system. How much drilling has there been into the 11-page question? Is it a terrorism issue? What is it that produces 11 pages rather than three?

Mr Tom Jenkins: I think it is the desire to cover every base in the UK visa system.

Lord Mawson: Gold-plating.

Mr Tom Jenkins: One problem we have, and it is not unique to this country, is that, in addition to trying to cover every base, we are creating a single visa for every country on earth that requires a visa. We may impose a visa regime on a country for a very specific reason. The reason why we require a visa for people from Russia is different from the reason why we require one from China, and different from the reason why we require one from Zimbabwe, yet they all have to be embraced in a single visa form, which has, I believe, an explanatory gloss of 205 pages to go with the 11 pages.

I would love every Member of the House of Commons and the House of Lords to fill in a UK visa to understand the welcome we give people. You get some intimation if you go to the Russian embassy to obtain a visa for Russia, because the Russians, by way of retaliation, ask similar questions to us, for no reason but to show us up, I believe.

The Chairman: It would be quite interesting for the Committee to have a look at that.

Q28 **Lord Wigley:** I declare an interest in my links with Bangor University, and, in that area, with the tourism industry of Snowdonia, which is a pretty significant feature in this matter.

What are your sectors' key priorities for future UK-EU relationships? You have touched on them to some extent, but I am sure that could be

expanded on. How confident are you that they can be achieved?

Mr Kurt Janson: We put a document together for the Tourism Industry Council, which is a government-industry liaison committee, on the touchpoints between the UK and the EU on legislation. It expanded on the ecosystem of agreements, regulations and rules that underpins simple travel to the UK by EU nationals and vice versa. We found 35 key agreements and regulations that underpin just a single trip.

One of the problems is that the EU has been too successful, and the average person does not realise the vast array and complexity of the regulations and agreements that underpin a simple trip across borders. If there are changes in one part of this web of regulations, our concern is that the complexity is such that it will be very hard to see what the impact will be on the industry in future. We need as much clarity as possible now on what future arrangements are going to be, because there will have to be adjustments if any one of those 35 pieces of legislation agreements is changed materially as we go through the negotiation process. How any change to that ecosystem reflects on what businesses have to do, how they need to operate and where they need to be located—

Lord Wigley: Can I intervene? By when would you need to know the terms of the future UK-EU relationships in order to be able to prepare for them?

Mr Kurt Janson: Yesterday, if I was being flippant.

Lord Wigley: Of course.

Mr Kurt Janson: Tom can provide more detail. At the moment, businesses in the tourism sector are not just putting together their brochures for 2019; they are putting together their brochures for 2020, when we could be through the transition zone and out the other side, not even in the transition zone. The need for clarity is of primary importance.

Mr Steve Lowy: From our point of view, there must be a voice in regulation and marketing to say that we are open, and that people are welcome to travel to the UK and work and study in the UK. As a priority, that is really important. Obviously, we need clarity about how that is going to function. That is essential. The sooner the Government can explain to the world what that is going to be, the better.

Tourism is made up of many SMEs, in places such as Snowdonia. If you are organising a big hiking trip from Australia, or a group of Italian students are doing a summer camp in Bath, which is a massive business, will you have to change something in the brochure? Those businesses are not sure now. Language schools are going to fairs where they are selling against Australia, America and Canada, who say, "This is how it is going to be and we really want Italian students to come and study here". The sooner the clarity happens, the less likely it is that the purchase cycle will be broken.

Lord Wigley: Given what you have said, could you add what the implications of a no-deal scenario might be? Are you making any preparations for that outcome?

Mr Steve Lowy: A lot of our members are treading water, to be brutally honest. They are really not sure. I spoke to one language school that has been operating for 30 years. It had a great year last summer, but the owner is thinking about selling the business now, because, if there is no deal and European students are not able easily to come to the UK in two years' time, he will have no business. If there is no access, it is as simple as that.

That is very dramatic, but, if that is the situation for a 20 or 30 year-old business owned by a successful entrepreneur who just does not want to take that final risk, it is a problem. This country has done well, with many SMEs growing in local communities, in cities such as Hastings and Brighton, where in summer young people from across Europe are learning and loving their time in the country. For someone with a small bit of accommodation and a language school aimed at European students, there comes a point when they do not want to take the gamble. Business rates have gone up, along with everything else. A lot of people need clarity to know whether they can print their brochure and open the door in two years' time or whether it is going to be shut.

Mr Kurt Janson: To paraphrase, from the tourism industry as a whole, businesses are not thinking about it, because it is unthinkable. That is the whole thing about it. If you asked what they were doing to prepare, they would say, "We cannot prepare for it". It is as simple as that.

Lord Wigley: Is the worst aspect the question of the security of the workforce?

Mr Kurt Janson: No. It is basically just being able to shift people across borders.

Mr Tom Jenkins: The natural reaction of everybody confronting this is to fight desperately for the status quo. I dare say you have been listening to grouping after grouping saying, "Please, can we keep what we have at the moment?" We are not dealing with a stable situation. Tourism is a heavily regulated activity. How we function is determined by regulations. Kurt alluded to the package travel directive reform that is about to be introduced. We are about to see package travel 3 start to be negotiated and explored within the corridors of power over in Brussels.

If and when package travel 3 comes in, it will open up Europe as a proper single tourism market, and we will have on our doorstep by far the largest single market for tourism services in the world, and by far the richest. It is one fraught with opportunity for Anglophone intermediation companies, such as those I represent. That we will be on the outside of it will be very hard. Even if we negotiate access, it will be crucial for us to have some influence over how those regulations are framed. What do we seek from a deal? We seek access and influence. That is what is needed.

Ms Vivienne Stern: On the plan B question, we have been doing a lot with our European counterparts to explore what might be possible through bilateral agreements to continue to exchange students, and to continue to collaborate in research. I have not talked about the Erasmus programme, but we are very concerned about the potential loss of access to that. Although we are doing that with enormous good will, and we feel that it is responsible to plan for the no-deal scenario, it is incredibly complicated to put in place something that will allow for the same degree of exchange as we have at the moment.

On the student recruitment side, it is inevitable that the UK will see, at least in the short to medium term, a decrease in the number of EU students who come to the UK post our exit. That is inevitable. We need to work with universities to help them to diversify recruitment globally. In non-European recruitment, the UK only recruits seriously from about 10 countries in the world. There are very large numbers from China. India has been a disaster for us in the last few years, and we have to turn that around. We have to broaden our appeal to places where at the moment it is not the habit to think UK, but we have something to offer. We have to do that. That is why things such as the GREAT campaign and Discover You are quite important.

It may be slightly cheeky, but I would like to use this as an excuse to say that people should be looking at what is happening to the British Council. The British Council has been very important to the education sector. It has seen its grant funding reduced over the last few years, and it will eventually be zero. Its only public funding source is the ODA, which means it is only grant funded in places that are on the DAC list. That excludes Europe. We need the British Council to help us promote the sector, broker relationships and smooth the pathway to transnational delivery, but the British Council at the moment is in a position where it is increasingly hard for it to do that. We should be taking an interest in that.

Lord Wigley: Thank you.

The Chairman: That is very interesting. We are reaching the end of our time. One issue on which we might get some clarity over the next few weeks, hopefully, is the transition or implementation period.

Q29 **Lord Mawson:** What are the implications of a transition or implementation period for your sectors? If a standstill agreement is reached, do you think it will be necessary to follow it with a period of phased adaptation to the terms of future UK-EU trade arrangements?

The Chairman: Make them quick answers, if you can, as we are running out of time.

Mr Steve Lowy: On the plus side, it means a more flexible income and that we can move more quickly than some of the bigger member organisations, but transition will probably be necessary for people to get used to new rules, and to ensure that it is as smooth as possible. It will

be very bumpy, but transition will, hopefully, allow for time to get used to new regulations and to plan for the future.

Mr Kurt Janson: A transition period is hugely important for our sector. During that period, we need from government an overall tourism strategy, because tourism impacts on a range of different government departments. Tourism strategy needs to link to aviation strategy, a new migration system and a new strategy for students coming into the country. It needs to link with a new tourism sector deal and new taxation policies. Although we are the fifth most competitive country in the world for tourism, we are the second most highly taxed country in the world for tourism. We need to sort out our taxation of overseas visitors so that we can continue to get them in. All those strands of government policy need to come together under an overarching tourism strategy, and we need the transition period so that we can understand the landscape in the future and put such strategies in place.

Ms Vivienne Stern: For us, it is continuity in access to the framework programmes for research. We have a pretty cast-iron guarantee that we can participate in the current framework programme for research—Horizon 2020—until the end of that programme, as long as there is a deal, and there is an underwrite if there is not a deal. As early as possible we would like a signal that we are going to be in as an associate country to FP 9, the successor programme. The same goes for Erasmus. The reason for both those things is that for students and for academics engaged in research collaboration, there are long planning horizons; 18 months is probably the crunch point. We need planning time.

For student recruitment, I reiterate that the decision about the fee and loan status of students entering in 2019 is urgent. The longer we can give prospective European students to prepare for any change in the arrangements, the better. We would like at least two full academic cycles before any significant change to the rules applying to those students. The Government need to start thinking about the basis on which loan access might be extended to students, either in Europe or beyond Europe, through a series of bilateral agreements with no cost to the UK taxpayer. Is that possible? I am sure there are models that we could deploy. That is something we should be talking about.

Mr Tom Jenkins: A transition period is desperately to be hoped for. It should be as long and as liberal as possible.

The Chairman: Thank you all very much. There are some things I would like to pursue, but we are out of time. Thank you very much for coming and for the amount of time and thought you have given us. If there is anything you want to follow up, please do so. We will send you a transcript so that we do not misrepresent what you have said, and if there is anything else we welcome your comments. Thank you very much indeed.