HOUSE OF LORDS

Select Committee on the European Union

Internal Market Sub-Committee

Corrected oral evidence
Brexit: trade in non-financial services—follow-up

Thursday 22 February 2018.

10.15 am

Watch the meeting

Members present: Lord Whitty (The Chairman); Lord Aberdare; Baroness Donaghy; Lord German; Lord Lansley; Lord Mawson; Lord Rees of Ludlow; Lord Wigley.

Evidence Session No. 4 | Heard in Public | Questions 30 - 46

Witnesses

I: Samuel Young, Deputy Head of Policy and Public Affairs, Creative Industries Federation.

II: John McVay, Chief Executive, PACT; Adam Minns, Executive Director, COBA; Caroline Rush, Chief Executive, British Fashion Council; Tom Kiehl, Director of Government & Public Affairs, UK Music.

Examination of witness

Samuel Young.

Q30 **The Chairman:** Good morning. I am sorry that our technology has taken a bit more time than is normal in the cutting-edge House of Lords. Hopefully, it will work. The screen behind you does not work; the screen in front of you does. If we at the top end of the table turn our backs to you, no discourtesy is meant.

You may want to introduce yourself, but I understand that you have a full presentation for us. We will let you get on with that; fingers crossed that it all works. We will then have a reasonably free-flowing discussion, if that is okay with you. I understand you will also stay for our second session, with other representatives. Over to you.

Samuel Young: Many thanks for the invitation to come today to present the Creative Industries Federation's *Global Trade Report*. I am the Deputy Head of Public Affairs and Policy at the Federation, working on Brexit in particular. That is my sole responsibility, mainly because it is a huge issue for the creative industries.

To give you some background on who we are, the Creative Industries Federation is the national organisation for the creative industries, creative education and the arts. We represent a broad range of the creative industries, from architecture and design to advertising, music, publishing and video games. It is a very broad church. Our aim is to give the creative industries the recognition they deserve, and to highlight the fact that the creative industries are not just a red carpet on a Saturday night; in fact, they are much more than that.

The figures on the slide show just how much of an economic contribution we make. According to recent DCMS figures, it is around £92 billion in GVA to the UK economy, which is almost £80 billion more than automotive. We employ around 1.96 million people, which is 700,000 more than financial services. The rhetoric, both in the media and in speeches from government, tends to focus on sectors such as financial services and manufacturing. We want to show what a huge contribution the creative industries make as well.

The contribution that they make is not just economic, but cultural. We enrich lives and bring people together, which is important, particularly at this time. Creative industries can be an important way of bringing communities together, particularly when communities and nations are divided, as is the case at the moment, to create an understanding of different values and cultures, not just in the UK, but from across the world. Obviously, the creative industries are a conduit for our UK British values across the world as well. They play a very important role in our soft power, which is difficult to quantify, but it has a very positive impact.

As I said, Brexit is a fundamental issue for us. There are some very clear challenges for the sector. Immediately following the referendum, we gathered together all our members and launched a survey to get feedback on how they thought the referendum had gone. You might not be surprised to find that 96% said that the result was not what they wanted. However, we discussed the issue and said that, although it was not what we wanted, we needed to be practical and come up with solutions. In October 2016, we published our *Brexit Report*, which covers all the different areas of Brexit, in terms of challenges, and offers solutions.

The report looked at four key areas. One was talent and skills. In October last year, we published our *Global Talent Report*, which mapped out what we need from a future EU immigration system and a separate non-EU immigration system. The report identified the failings in the non-EU immigration system and how it could be improved in the future. Funding was another area. The last two areas were intellectual property and regulatory frameworks, and trade and investment. Those formed the basis of our *Global Trade Report*, which was published at the end of January this year. I will go into this in detail.

For our report, we gathered evidence from right across our membership, through surveys, anecdote and one-to-one discussion. We also drew together case studies to show the real impact of Brexit. The idea of the report was to assess three key areas. First, was the importance of trade, particularly with the European Union, to the creative industries. The second was to identify the challenges from Brexit. The third was to say, "Okay, these are the challenges. What are the recommendations, not just for our future relationship with the EU, but for our future relationships with non-EU countries, if we find ourselves in a position where we can agree bilateral trade deals?"

We mapped out the figures on the first point, which was the importance of trade to the creative industries. In 2015, the creative industries exported £35.9 billion in goods and services. A large part of that—£21.2 billion—was from creative services, which are around 9.4% of total UK services exports. There has been a focus on financial services, and for some it may not be clear what creative services are. There is a whole range of different services. It may be an architect going to provide a service, a music act touring around the world, a production such as the National Theatre's "War Horse", which has gone to 10-plus countries around the globe, or a broadcaster that may be based in the UK, but will provide content across the EU or across the world.

As you will see from the last point on the slide, it is clear that Europe is a huge market for those important services: 57% of the UK creative services traded went to Europe; 45% went to the European Union. Europe is very much the biggest market for the creative industries. It is our closest neighbour. Obviously, we have a shared history, a deep partnership and strong trade ties. Our trade has been very much facilitated by EU membership, with the four freedoms: free movement of goods, services, capital and people. That is why Brexit poses a particular set of problems for the creative industries.

When we look at possible models, it is hard to imagine a UK-EU trade relationship that would be as good as it is today. Most of the models that conform to the Prime Minister's red lines would see some of the freedoms restricted, which could have a consequence for the creative industries. It is also quite unclear what the bespoke model that has been discussed would be.

What is very clear is that a no-deal scenario would be quite catastrophic for the creative industries. It could establish significant barriers such as tariffs and on temporary movement, as well as for creative services. Our *Global Trade Report* includes a survey of our members, in which we asked them three key questions about a no deal. Nearly 80% said that they are not confident that Britain will maintain its global reputation post Brexit; 21% said that a no deal would make them consider moving part or all of their business abroad; and 40% said that a no-deal outcome would harm their business's ability to export.

At the same time, as I said, we wanted to be practical. That leads me on to point 3, where we wanted to outline key recommendations from the creative industries, and to highlight the clear challenges and how they could be addressed. I have not gone into all the recommendations. I picked out some of the key ones. As you can see, I focused on IP, goods and services.

The first is the IP framework. Our recommendation is based on consulting many of our members, because it is an issue that affects people across the creative industries. It is important to make sure that the current UK IP framework continues post Brexit. We have one of the most advanced and strongest IP frameworks in the world, which has been shaped partly by Brussels. It is essential that we continue in this direction of travel and are not tempted to move away from an incredibly strong framework towards other systems—for example, the US fair use system.

There is a particular set of complications around design rights and trademarks. We are calling for reciprocal recognition. At the moment, we have EU-wide design rights and trademarks, which means that we have to register only once to be protected across the EU. Obviously, there are potential issues post Brexit if we do not have this, in the sense that companies may have to register in both the EU and the UK.

There is also an issue around unregistered design rights. For example, London fashion week, which has just finished, is a platform where British businesses showcase their new designs for the first time. One legal interpretation of the potential scenario post Brexit, if we do not have a reciprocal agreement in place, is that if you were to show a UK fashion piece for the first time in the UK, at London fashion week, you would receive protection only in the UK and not in the EU. That could change designers' behaviour. In order to receive more protection, it may make more sense for them to show their design first in the EU, which could be particularly detrimental to London fashion week and other such platforms.

Although we have a very good IP framework, the EU framework offers slightly more protection on unregistered designs than the UK. If we do not have an agreement, a much weaker design right will apply in the UK.

The second point is on goods and ensuring that creative goods continue to circulate easily after we have left the EU. Companies such as Penguin Random House have benefited from access to Europe to sell their books there. The UK is often regarded as a way into Europe for publishers outside Europe. It is essential that, post Brexit, we have a situation where those goods do not face the tariffs and barriers that apply at the moment to non-EU goods.

The last section is on services, where there are three issues. The first is about ensuring frictionless access in both directions for audio-visual services. There is a specific challenge faced by broadcasters. At the moment, they can get one Ofcom licence, which allows them to provide their services across the EU. Once we leave, if there is no agreement, it could be detrimental and could force broadcasters to restructure or, potentially, to move to another EU member state in order to benefit from access to the single market.

The UK is a world leader in broadcasting. We have the second or third biggest market in the world. We have some leading broadcasters, such as the BBC, and leading international broadcasters, such as NBCUniversal and Time Warner. Some of those broadcasters provide their services to the UK, but some do not; they just provide internationally. They are attracted here because of our access to the EU market, and because we have amazing infrastructure, talent and intellectual property. You will be speaking to Adam Minns from COBA. He has published a very interesting report, which I am sure he will go into, demonstrating how much investment broadcasters provide. It is actually £1 billion. There are some clear threats. We need to find solutions quickly, as the broadcasters have their contingency plans.

Lastly, under services, we need to ensure that it is possible to have temporary movement of crews, casts and people, so that they can provide services, tour and produce films. The Royal Shakespeare Company can perform in the UK on a Monday, go to France and set up on a Tuesday, do a performance on a Wednesday and then go to Germany. At the moment, the ease of movement in the EU makes it very easy for such companies to move; there are very few obstacles. It is essential that that remains the case post Brexit.

The last point is on data. It is very important that we continue to have access to EU data and are able to process them. Those data are essential, whether you are in marketing looking to understand particular tastes, or an audiovisual service looking to understand audiences. It is absolutely essential that people are able to process data to understand different markets. Data is also at the heart of our future digital economy. The Government have committed to GDPR, but we need to make sure that we continue to follow the EU closely, so that we are considered equivalent.

In the final part of the report, we looked at our future relationships with non-EU countries. If we find ourselves in a situation where we are able to negotiate our own trade deals, it is essential that we explore key growth markets, and new markets, for the creative industries, whether the US or emerging markets such as China, India, South Korea and Japan. For example, we have world-leading VFX companies here. In Asia, there is huge, rapid growth in 3D cinema, so there are clear opportunities for creative industries. We need to make sure that there is easy movement for creative services and goods in those agreements as well. We must also address the challenges around IP protection and enforcement, to ensure that those countries offer similar protection and that we raise them up to the level of protection that we provide in the UK.

That was an overview of the recommendations. For our next steps, we are trying to promote the recommendations and to demonstrate that the creative industries need to be at the heart of all negotiations going forward. We are meeting government to make sure that it is aware of the challenges we face; obviously, it is great to be here to discuss them as well. We are organising various roundtables with government and the creative industries. We had one on the US-UK future relationship a few weeks back, and we will have one on the future of trade soon.

We are organising Brexit working groups internally, where we gather together our members to discuss some of the core issues, as well as working with other sectors—for example, through the Screen Sector Task Force. On 15 March, we will have a Brexit conference, which is a moment to bring together all the creative industries under one roof to discuss some of the key issues. I am happy to provide Pippa with more information on this, to circulate to all of you.

Q31 **The Chairman:** Thank you very much. That has given us a good run through. Is your engagement with government primarily with DCMS, or have you been talking to DExEU, DIT, BEIS and the Home Office as well?

Samuel Young: We have been talking right across government. We have good relations with DCMS. We talk to DCMS on a regular basis, at all levels. I have been at the Creative Industries Federation for four months, but in those four months I have seen good feedback and exchange with the Department for Exiting the EU. It has attended our last two working groups to engage with our members on key issues around trade, as well as around funding. We are building some good relationships there. Obviously, all relationships are a work in progress, and we would love to have more engagement, but, so far, the signs are positive.

The Chairman: The thing that surprised me, and maybe others, in your presentation was the high proportion of your exports that go to Europe. I had assumed that, for many of your sectors, with the USP of the English language, your obvious market would be the English-speaking world, certainly for films, theatre, books, publishing and even games. Is the reason for the prominence of Europe primarily the ease of movement, exchange and mutual recognition, or has something else been happening that means that you have developed Europe more quickly than you have developed the North American or the Asian market?

Samuel Young: As you said, it is partly due to ease of movement. It is also because Europe is our closest neighbour. Generally, the further away you go, the fewer exports there are, because when you are very close the costs are lower. With the EU, there are particular rules that help distribute English language works. There are quotas for European works that UK works fall into, and the Creative Europe programme provides essential supports to help businesses export. There has been support at both national and EU level, which has really helped English language works to circulate around Europe. It is a mixture of that access and the fact that Europe is our closest neighbour, and we have very strong ties with it.

I worked in Brussels for five and a half years before I came here. Even in Brussels, everyone speaks English. If you go to the Netherlands, everyone speaks English. A really interesting mapping exercise was done by one of the European publications to show just how many people spoke the English language. In the Netherlands, it was something like 96%. There is a huge amount of English spoken. That is one of our key strengths. The fact that it is spoken gives us great access to that market to show our works.

Lord Aberdare: I want to pick up the Chairman's first question on the level of engagement and how happy you are with how that is going. You gave a fairly upbeat answer, but I notice that in your latest report—the trade report—you say, "The needs of the creative industries have been sidelined". Have things improved since that was written, or is it referring to something slightly different?

Samuel Young: We have engagement. It is one thing to listen, and they are aware of issues around audio-visual services, for example; but there are a lot of other issues where we also need to see them demonstrate, perhaps publicly, that they are really taking those issues into consideration.

It comes back to what I said at the very beginning about the focus being on financial services and manufacturing. That is what we see. At official level, we have some good engagement, but we need some work when it comes to the broader discussions. Any support that this Committee can give to help to raise the importance and the needs of the creative industries in Brexit will be very valuable. It is about making sure that the Government are aware and trying to encourage them to show publicly that the creative industries need to be at the heart of the negotiations.

Q32 **Lord Lansley:** Thank you for the presentation, in which there were some really interesting statistics. Can I explore with you the issue of the US and the way in which the Americans approach things? Of course, the Americans are a very major source of creative services and goods. Do you have either statistics or a qualitative assessment of how the Americans go about entering the European market as a third country? To what extent do they do it by being in Britain?

My second question is not necessarily linked. I noticed that, alongside the case study from Penguin Random House, there was a quote from the chief executive of Curtis Brown, who was worried about cheap US publications entering the European market if they are no longer controlled by UK publishers. That prompted a question in my mind. When we talk about a zero-tariff solution, to what extent are there tariffs? I am not sure that I know to what extent there are tariffs that impact on this. Are we talking mainly about quantitative restrictions and origin principles? I am trying to understand what we need the formal trade negotiations to deal with in order to maintain access.

Lord Mawson: Can I add a point to that? It is on a related question. I am a director of the Olympic park. We have just done a multimillion-pound deal with Madison Square Garden to bring a major entertainment facility here. It has chosen us in Stratford and it will bring a whole range of digital jobs and other stuff. Here we are in the middle of those negotiations. Those people know fully what is going on, and they have made the choice to come to east London. I am wondering why that is. It relates to the question of why the Americans are making these kinds of choices in this kind of environment. Thousands of jobs are going to be affected.

Samuel Young: Where should I start? Was your first question about the US and how it enters the EU market from the UK?

Lord Lansley: How does it enter the EU market? To put it bluntly, some people say, "Why is it so difficult?" The Americans sell broadcast material, publications and creative material to the European market. How far do they achieve it by being in Britain? Clearly, there would be a significant risk of diversion if, by being in Britain, they did not satisfy their need to enter the European market.

Samuel Young: We have a lot of international broadcasters. Some of them are from the US, and they invest a lot in the UK. They do so partly because of the access that it gives to the EU market, as I said, but also because of the infrastructure, the IP, et cetera, that we have in the UK. I am not sure that I completely understand the question, but many of them see us as a hub for providing their broadcasting services to the EU. There may be UK content, but there can be other content as well. Generally, they offer a particular package of content, depending on the specific territory. I do not know whether that answers your question. I am not sure that I understand it completely.

Baroness Donaghy: Let us say that there is not a brilliant agreement. What would happen in the minds of the Americans if in the future they could not use the UK as their entry to the EU? Would there be developments? We have already heard that the Netherlands and Ireland are ready and willing to take on anything that we might lose.

Lord Lansley: It is a bit like the debate on financial services. Understandably, quite a lot of City people say, "We have capacity, talent and experience. We have all these things, so they are not going to go somewhere else”.

Samuel Young: You will be speaking to Adam later, and I am sure he will go into more detail. Some of the investment will not change, and some companies might decide to invest more. Yes, they are attracted here because of all the great IP, where we are very strong, but that is predicated on the fact that they can base themselves in the UK and reach out to the EU market. If you chip away at that, inevitably it will have an effect on the future of investment in the UK. Yes, some will stay here, of course, because we have great IP, a great infrastructure and a great system. At the same time, if you take away something that is quite fundamental for broadcasters, you raise costs.

You also have to look at EU rules and what they would need in order to access the EU market. The AVMS directive says that they must have a significant number of staff making editorial decisions in the country in which they are established in order to benefit from having one licence for the whole of the EU. The consequence is that they will have to think about, and are thinking about, how to restructure. If they are based in the UK, but want to provide their services in the EU, they will have to move some proportion—it is unclear how much—to an EU member state in order to have access to the EU single market.

The Chairman: That is one particular example. Lord Lansley asked what barriers in total we would face. There would be tariffs on goods. Can you tell us what the level of tariffs would be? If, for example, the UK were outside without an optimum free trade agreement, what kinds of tariff barriers would we face? Presumably, those would apply only to the goods bit of your operation. When it comes to other, non-tariff, regulatory barriers, such as recognition of qualifications, what would a completely third country face in order to get into Europe in your sectors?

Samuel Young: You are asking what the barriers for a non-EU country going into the EU are.

The Chairman: Yes.

Samuel Young: I am not sure that I can answer that question fully, based on my knowledge. There is a common tariff in the EU, but I am not sure what the exact percentage is. On qualifications, it really depends on whether the country has a mutual recognition agreement. For example, in the EU, we have mutual recognition of qualifications, which means that an architect can move to an EU member state without having to take additional exams. For a non-EU country, it would depend on whether there was a mutual recognition of qualifications agreement in place. I cannot give you key examples of these.

Lord Wigley: The English language has now become the lingua franca throughout Europe, particularly in eastern Europe, where it is replacing Russian. In so many sectors, people coming here are more fluent in English than we are—for example, the hotel and catering sectors.

Before I ask the question I wanted to ask, I declare an interest. All the rest of my family are involved in the creative arts.

The Chairman: We all have that problem.

Q33 **Lord Wigley:** My question relates to performing artists—groups and so on—going from the UK to the EU. In the old days, when I was at university, I remember a jazz band with eight people and 12 instruments having to get passes for the individuals and the instruments at every border. Am I right in saying that, at worst, there would be barriers that required them to get permission to go into the European Union, but they could then move around within the European Union without the sorts of difficulties that existed before?

Samuel Young: No, I think it is at every border.

Lord Wigley: At every border.

Samuel Young: Yes, a carnet is shown at each border crossing. That is exactly the issue. For example, a production might be shooting in five different locations or a music act might be playing in five different locations. At the moment, they benefit from a very easy system where they have no documentation and few costs. A person or a crew can move with all their equipment. For non-EU citizens, there may be a carnet system, which is more complicated. They have to have that documentation at each border for temporary movement.

Lord Wigley: For both people and instruments.

Samuel Young: The carnet is for equipment, but if people had to get some kind of visa, that could impact on their ability to move. That is where the costs really start to blow up. For a huge tour, with all its staff and equipment, the costs of moving around in Europe could be quite astronomical.

Lord Wigley: That would work the other way round for Europe-based people coming to the UK.

Samuel Young: Yes. That is the case if our non-EU system applies.

Lord Wigley: That is a cultural disaster.

Q34 **Lord Rees of Ludlow:** I am from the academic and scientific world, where we have some similar considerations, although we do not have commercial transactions in the same way. One issue that worries us is that, even if it proves easy to get work permits and visas for skilled people, they will be less likely to want to come here long term if they do not feel that they can settle and bring their families. To what extent do people in your community share the same concerns? Will it be harder to get top-rate performers to base themselves here, for instance?

Samuel Young: Our *Global Talent Report*, which I mentioned, looks into the immigration point. Free movement of people is very important for the creative industries, whether it is permanent staff or an opera getting in someone temporary to come in for two days or a week. For example, if someone gets sick, you can quickly find another talent from Europe and bring them across. There is a huge challenge.

I am trying to think of the figures. Between 20% and 30% of the visual effects workforce come from the EU. For international broadcasters, it is something like 15%. Those EU workers are incredibly important, not just because we can attract the best and brightest from the EU, but to fill the essential skills gaps that are particularly prevalent in the creative industries. We have a lot of creative and technical roles, and some very specialised roles. Being able to have access to the EU to bring people across is important. It is also important to have people in a team who can understand different markets—for example, a Polish worker who can understand the Polish market and culture and help you to trade there.

There are some considerable concerns for us post Brexit, if we are no longer able to attract that talent. Obviously, it will put a lot of pressure on our non-EU immigration system, if that is more restricted.

Lord Rees of Ludlow: It is not simply that people may find it hard to get visas. Even if they get them, they may not want to come if they feel that there is no freedom of movement for their families.

Samuel Young: It is about the perception that we give out, absolutely. One of the things we highlight is that we have a very strong, open relationship with the EU at the moment on movement of people. It is important that we continue to maintain our reputation as an open, welcoming place for workers in general and for trade.

Q35 **Lord German:** I would like to explore the IP issue. In your presentation, you scored the recommendations you had selected from your report. You put IP at number one on the list. It is perfectly understandable for you to say that it must be the top priority in any trade agreement between the UK and the EU, because we want to try to replicate what we already have. Could you tell me a bit more about how IP works with the rest of the world?

Recently, a very famous person wore a particular coat. That was replicated—in this country, actually—within 24 hours and was on sale to people, because it was very fashionable. I will not go into further detail. However, it indicates to me that, although IP may be very fine in this country, there are people around the world who can replicate what we do and try to do so. Are those protections available elsewhere? Has IP been written into any of the trade agreements that the EU has done, in CETA in particular, so that we have a model to work on?

Samuel Young: The ordering was not to indicate which was most important. It is random, rather than a way of saying that that was the number one issue.

You asked about how IP works in the rest of the world. As I said, in the UK, we have one of the most advanced IP protection and enforcement systems. In the rest of the world, there are obviously some complications, particularly when we start looking at future trade agreements. For example, there are complications in some of the countries that I listed as key growth markets. Although, arguably, there have been some improvements in places such as China, there are still challenges, with the potential to steal IP and undermine your ability to export your work. The real challenge for us is to try to make sure that, when we have these agreements, there is sufficient protection in place.

You asked about other trade agreements with the EU where IP is written in. I am trying to think of a few. When I was working in Brussels, we were working on TTIP, which did not end up being agreed. There was no longer an IP chapter in that. Off the top of my head, I cannot think of specific examples at the moment, but I am happy to get back to the Committee with a list of what the issues look like and the challenges around them.

Lord German: That would be very helpful. There is nothing to compare it with otherwise.

Samuel Young: Absolutely.

Q36 **Lord Mawson:** I would like to press you further on the deal with Madison Square Garden, because it is a fact and is starting to happen. I am wondering why this very wealthy American company has chosen not to go to Paris or Berlin. In the middle of the conversation that is going on in Europe, that choice has been made.

Secondly, the reality of politics is that the citizens of Europe, including our own, have experienced open, free borders and know what that feels and looks like, whereas in the 1960s they did not. Therefore, the pressure on all our politicians to find solutions to these matters, in Europe and in Britain, will be very great indeed if suddenly large pieces of bureaucracy start to appear. Indeed, as I hear from Lord Bew, who knows a bit about Northern Ireland, the whole Northern Ireland issue is not necessarily as complicated as some of our politicians are making it out to be. If you get into the detail of it, there is a different conversation to be had from the one that we may be having. That is what he tells me; I do not know.

For your industry, is there not actually a creative opportunity, particularly for the technology industry, to find some solutions to the problem? Banks are finding solutions for our accounts, in all sorts of very interesting ways. Should the energy in Europe be spent on that, rather than on the political stuff? We need your industry to find solutions, through some of the red tape and bureaucracy.

Some of us have been to Brussels. We have seen the way politicians think about bureaucracy. For some of us, it feels massively out of date. There needs to be innovation in the whole system of government and how this stuff works. I suspect that your industry, particularly the IT industry, has the keys to those doors. This problem may well be an opportunity, but we need investment and engagement and we need some people to think about the IT solutions to the problems that are appearing.

We are no longer in the 1960s. It is very clear that our citizens will not be willing to spend 20 minutes at a border, and all that that means, because they know what the alternative tastes like; it worked and the sky did not fall in. I am just wondering about the practicalities of these things.

Samuel Young: When you refer to ICT solutions, are you talking about the interaction between creative industries and digital?

Lord Mawson: I mean paperwork, identity. I am not an IT expert. Are there potentially IT solutions when you appear at a border that make some of this stuff a lot simpler than it used to be when it was papers? Some of us are old enough to remember what that was like, and it was a nightmare.

Samuel Young: What ICT solutions there are at borders is probably not a question that I can answer, because I am not an expert on ICT and the particular technology that they would use.

Lord Mawson: It is the creative solution point. It is about the creatives moving into that space.

Samuel Young: Yes, we need a creative solution.

Lord Mawson: The systems of government and our Civil Services in Europe will not get there. They keep repeating the same thing. I am wondering about how we can create that innovation space, because there is a whole business opportunity to do with how we break through some of these bureaucratic challenges.

Samuel Young: Yes. I am not sure how I would answer about that technology. This is not related to immigration per se, but in the report we outlined some of the opportunities from technology and the ability to reach audiences much more easily. For example, the platforms for audio-visual or music make it much easier for creative industries to reach audiences abroad. That applies particularly to small and medium-sized enterprises, where there may be three or four people and costs might be quite high. However, if they have technological solutions, there is a huge ability for them to reach global audiences much more easily and at lower cost. That is true.

One thing I did not comment on in the presentation is our next report, which will be published on 14 March. This will look at the true value of creative exports. At the moment, official figures may not take digital exports sufficiently into account. We are looking at the figures to see what is included and what is not included, and then quantifying this. I gave the figure of £21.2 billion in services. We think the figure is potentially higher, because there is much more use of digital in exporting than captured. We have big platforms, which a lot of our creative exports go through.

The Chairman: We will be interested in that. When we did our inquiry on non-financial services, we found that a lot of the alleged export figures for services were a bit dodgy, shall we say, and probably serious underestimates.

Q37 **Lord Lansley:** Looking at your *Global Trade Report*, I found one example of a benefit of Brexit. Under the circulation of artwork, it says, “For exports to EU individuals, UK businesses will have one advantage after Brexit. They currently charge 20% VAT, but post Brexit the goods would be zero-rated”. Is that the only opportunity, or have you found others?

The Chairman: Does the Treasury know?

Lord Lansley: Do not tell them.

Samuel Young: Because of our relationship with the EU, we have had a very beneficial exchange, both in having open markets with each other and through collaboration. From that point, it is quite difficult to identify what the opportunities are of leaving. That example is one, potentially.

One of the things we focus on is future trade deals. It is hard to quantify, but the future trade deals we might make will probably not make up for what we could lose at the moment with the EU. Obviously, there are some opportunities we should be looking at, and we should make sure that creative industries are central in those negotiations. It might seem to be pessimistic reading, but one of the things we try to do is to look a bit beyond the EU.

Lord Lansley: You said that previously you worked on TTIP in Brussels. How important for the creative industries sector is the prospect of a free trade agreement with America?

Samuel Young: It varies. Different sectors will have different answers. For some in the audio-visual sector, there is already quite a good relationship in the first place. It is looking more at emerging markets, such as China, where there are some future opportunities. For others, a future trade deal with the US is particularly important. At the moment, there are differences in our membership’s views on how important it is.

Lord Lansley: Let us face it; where creative industries are concerned, a European negotiation involves quite a lot of baggage. If such an agreement could be reached by the United Kingdom, because it is simpler and there are just two parties, it could conceivably be an example—perhaps the best example—of something that could be achieved that the European Union has not achieved.

Samuel Young: That is true.

Q38 **The Chairman:** In this report, the architects suggest that there is a big opportunity. I am not quite sure why, but they do.

My last question relates to the migration system. Our relationship with the EU might mean that we were treating EU nationals on the same basis as non-EU nationals. What difficulties have your sectors found in attracting artists and technical and creative people from non-EU countries? What have been the big inhibitions? Can you give us a couple of examples?

Samuel Young: Yes. At the moment, the non-EU immigration system is quite problematic, because it is not really tailored to the creative industries. One of the big problems is with creative freelancers. Almost half of all creative jobs are freelance. The non-EU immigration system is not really built for us to be able to access those freelancers. For example, a requirement for a permanent contract; freelancers might be working on many different projects and would come for a very short period of time. It is difficult for creative industries to get those people.

Tier 1 has just been doubled, but the requirements for it are very high. You almost need to have a BAFTA to enter under tier 1. There are still gaps. If the current non-EU immigration system ended up applying, there would be huge gaps where we would not be able to attract the best talent. For tier 2, there is a salary cap of £30,000. For the creative industries, that is a very difficult salary to meet. We generally fall below that average, mainly because we are made up of SMEs. About 94% of our sector is SMEs, with very limited budgets. There are some clear complications around the non-EU system.

The Chairman: Thank you very much. Is there anything you want to add?

Samuel Young: No, I think I have covered everything. Thank you so much for this opportunity. I will be in touch to follow up on some of the points.

The Chairman: Thank you very much. We will now go on to the next session, but there will be a short break while we sort out the technology.

Examination of witnesses

John McVay, Adam Minns, Caroline Rush and Tom Kiehl.

Q39 **The Chairman:** Thank you very much for joining us today. We have a range of creative industries before us. You know the nature of our earlier inquiry and the report we produced, and we are following that up to work out how things have developed between yourselves and the Government, what your take is on the way things are going in Europe and beyond, and how your industries feel about it.

Can you tell us how you are engaging with the Government? Has it been effective? Are you getting decent feedback, particularly in the past few months as the negotiations began to hot up? Do you feel there has been a change in the level of engagement, which some of you were a bit sniffy about in the process leading up to our report last year? Are you satisfied that the Government are aware of and are taking your concerns and priorities into account? Perhaps each of you could introduce yourselves as part of the answer to the question.

Tom Kiehl: Thank you very much for inviting me. I am Director of Government & Public Affairs at UK Music. We are a globally unique organisation. Effectively, we bring together all the component parts of the commercial music industry: the recorded sector, the publishing sector, the collecting societies, the creators and the live music industry. We are worth £4.4 billion to the economy; we generate exports of £2.5 billion and we employ 142,000 people in this country. It is important to consider the high propensity of freelancers and self-employed people who work in the music industry, particularly at the creative end. There are some very large companies and organisations within our sector, but a high propensity of SMEs and small and microbusinesses, too.

When considering Brexit, there are three particular areas on which the music industry and UK Music's approach has focused. The first is maintaining, strengthening and protecting the copyright framework. That is fundamental to us. It provides a high level of protection that we will seek to maintain beyond Brexit. The second area is the avoidance and elimination of tariffs. The third area is the avoidance and elimination of non-tariff barriers.

To go into a little more detail, the copyright framework is fundamental to our business. Term extension has taken place, and we have a high enforcement regime at the moment where we can enforce our rights. That was acquired by the European copyright acquis, so it is a matter of strengthening that. We are very much governed and supported by that.

On the elimination of tariffs, at the moment physical media, such as CDs, DVDs and sheet music, have zero-rated tariffs applied to them. There are, however, tariffs applied to recording equipment and musical instruments of 2% to 5%, so we would seek the elimination of those in the future agreement.

When we talk about eliminating non-tariff barriers to the music industry as a result of Brexit, we are thinking about issues such as freedom of movement and the complications that may arise from leaving the customs union, particularly for live music, touring and the concerns that will affect us when we go to other parts of the European Union in a post-Brexit world.

As regards negotiations and discussions with government, we have a very strong relationship with DCMS as our main sponsoring department. It is very positive for the industry that Matt Hancock has become Secretary of State. He engaged with us quite closely as our Creative Industries Minister. That recent change is positive.

More generally, I have seen a significant increase in DCMS staffing and resources around creative industry issues over the past 12 months. That is due partly to the fact that there has been an intensive period of work with the creative sector on the industrial strategy and the Sector Deal, but the Brexit work is also reflected in those structures. We talk very closely to other elements of government, such as the Intellectual Property Office, given our interest and concerns there. We have a relationship with, and have met, DExEU. The relationship across government is generally good.

What is missing is clarity in the Government's position. That is where we hope to get more details in due course. Reassuring our community is the key message. In areas such as migration and immigration, we can go to the Migration Advisory Committee; we have worked closely with it. I think there is understanding of the freedom of movement issue and that a reciprocal approach is necessary. The harder we make it for people to come to the UK in a post-Brexit world, the harder it will be for us to tour across the EU as well.

Things are progressing well; our discussions are progressing. If anything has changed since the end of phase 1, it is that there is much more intensive discussion, awareness and understanding on the part of government officials and Ministers of international issues in other trading markets outside the EU. They are trying to strengthen their capacity to understand how we can be supported in that regard. That is where I have seen quite a shift. They have been coming to us proactively and we have been trying to give them more information on that. The conversations are certainly going well, but there is a need for more clarity about the overall government strategy.

The Chairman: We will come back to some of those issues.

John McVay: I am Chief Executive of PACT, which is the producers' trade association for film, TV, children's animation and digital production. It is a sector worth about £3.2 billion to the UK economy and is very fast-growing. Half of that amount comes from global sales and revenues. We employ in excess of 36,000 freelancers and other staff across the UK, which is greater than all the broadcasters combined. We are an SME sector primarily, but we are global in our ambitions. Our growth has been going up year on year by about 11%, and we are taking the opportunities that the newly-emerging global markets give us.

I am also the sector lead for the Creative Industries Council on the Sector Deal, which we are currently negotiating with BEIS and DCMS. We are, hopefully, in the last 50 yards and will cross the line soon. In answer to your question, that has involved me working with BEIS, DIT and DCMS intensively, looking at the composition of the sector arrangement and the roles that industry and government can play, primarily in increasing productivity and growth. It is not actually focused on the context of Brexit, but clearly anything around that that may have negative or positive consequences.

Primarily, for all of us at this table, we are a fast-growing economy. The creative industries are growing at twice the rate of the rest of the UK economy. We are now worth £92 billion, and we are global in our ambition and the way we grow, because the domestic market is generally flat. In answer to the question about how we can do better, industry has come across a number of policies and actions we can take to increase skills, involve more people across the UK and deal with some of the copyright issues, but all of that will be affected by a number of issues when we come to the negotiated settlement with the EU. In terms of migration, we are a sector that uses a lot of freelance workers.

Sometimes we hire people from Hungary or Spain for six months for a film or TV project. Clearly, that is an important part of our ability to get the best talent at the best price to maintain our productivity.

We have commissioned a large piece of work on skills and migration with NESTA through the Creative Industries Council. I cannot say too much because it is not published yet; it will be published in the next few weeks. It has thrown up some interesting characteristics across the creative industries. In certain areas, we have very high levels of full-time, or full-time contract equivalent, EU and rest-of-the-world employees. In other areas, it looks pretty much like the rest of the UK economy. Around about 11%: 6% EU, 5% rest of the world.

We dug into that a little more. What is interesting is that the bigger the employer, particularly in the south-east, the higher the level of EU employees. That is to do with fast growth and getting access to talent. Outside London, where typically it is about 11%, most of those, particularly EU employees, have been recruited through normal recruitment, which means we have advertised in the press somewhere and someone from Madrid has got the job. Sometimes it is said that our industry has headhunted and poached in other territories. That does not seem to be entirely true across all the sectors. It is true in some areas where there is a real skill shortage. Of course that's a bit worrying if the man or woman from Madrid was the best candidate I could get in Sheffield and the second-best candidate was a Brit who was not good enough, so they were suboptimal. That is something the Government have to start paying attention to, in particular allowing the creative industries to get more flexibility in the apprenticeship system, which, by and large, does not work for them.

Our engagement with government is pretty good. I echo Tom's point, and I imagine Caroline and Adam might say this as well. If government could tell us exactly what we are going to get, we would be a lot clearer on how to react. My only caveat is that the creative industries are an innovation sector. We have to change very fast because our business models and our markets are changing very fast. Innovation and adaptability are at the heart of what we do. I remain confident that when we get more visibility we will react quickly to try to make sure that we continue to be a high-growth sector for the UK economy.

Caroline Rush: I am Chief Executive of the British Fashion Council. We were established to promote our designer sector to an international audience. As part of that, we host events such as London Fashion Week, which has just finished and was very successful, where we attract media, retailers and business partners from around the world to come to London to look at the very best British talent we have here. It is a fantastic example to bring to light some of the potential challenges we have around Brexit.

Our fashion week is full of small businesses. You will have seen headlines about the likes of Burberry and Mulberry, but many of our businesses are small creative ones that punch way above their weight in their international reputation. That reputation is fantastic for Britain. It means that we are known globally as leaders in creativity and innovation. A lot of that comes from our colleges, which attract brilliant international students who decide to stay in the UK and start businesses here and contribute to our economy. Of course, not all of them are international. We have fantastic home-grown talent as well, and we are very proud of both.

Many of those international businesses come from within the EU as well as outside the EU. Many of the goods that are shipped, created and sampled are made in the UK, but we have an integrated product supply chain with the whole of the EU. About 76% of our exports in fashion goods and textiles go to the EU. We have very strong relationships with the USA, Japan and China for international trade, and with growing markets such as South Korea, but the EU remains incredibly important.

Many of the models who come to London Fashion Week are international models; some are fantastic British models. All of them travel around the world. We have key concerns because the current visa system does not work for many models who are not EU nationals. We already have challenges on our hands, so the idea that we might continue to have further challenges as visas become imperative is something we are incredibly concerned about. We are also looking at this as an opportunity to raise the fact that the visa system does not work for models. If there is an opportunity to change it to provide benefit for the industry, it would be a great opportunity for us.

The businesses that take part in London Fashion Week comprise people from all around the world. That is incredibly important for businesses that trade with the world, because they have that understanding within the business. Some of those businesses are already challenged in attracting key talent to be globally competitive. We are already concerned that we are going to be outside the EU. People who want to contribute to the incredible businesses we have here, and help drive forward their growth and ability to compete globally, feel they cannot relocate to the UK and be part of those businesses because at the moment no surety is being given by government that they can come here with their children and families.

The British fashion industry has a fantastic reputation for e-commerce; Net-a-Porter, ASOS, Farfetch and MATCHES are seen globally as leaders in e-commerce. Those e-commerce businesses have had the benefit of being able to warehouse and ship their goods from the UK to the rest of the EU. They are already having to think of the worst-case scenario. Do they have to have warehouses within the EU because they will have challenges moving goods, whether it is paperwork or tariffs? Are they going to have to move those jobs from the UK and start warehousing within the EU?

In relation to IP and London Fashion Week, one of the technicalities with the IP laws is that many of our fashion businesses rely on something called unregistered Community design. That means that when a product is shown in London for the first time during London Fashion Week it is protected within the EU. Unregistered Community design provides a fantastic opportunity in the cycle of a product being created, shown and put into the store. We are concerned that we have not had surety from government that there is understanding about that technicality. We have had assurances that IP will be protected, but it is on specific nuances for different industries, particularly the fashion industry, that I am looking for some surety, which I do not believe we have had.

Probably 20% of the funding of our organisation comes from the public sector; much of it is from the ERDF. That has allowed us to start a London Fashion Week for the menswear sector. I am sure there is a lot of support around the table for the menswear sector in the UK fashion industry. That means promoting Savile Row and the fantastic heritage we have here, not only young fashion designers. It would not have been possible without the ERDF. Again, I am concerned that we have not had surety that that funding will continue, and that there will be support for the innovation we are pushing within the sector to promote the businesses we have in the UK.

That probably covers the key challenges we are pushing on. I hope it brings to light some of the challenges for an industry that is worth £29.7 billion to the British economy and accounts for 850,000-plus jobs. As these guys said, the industry involves not only businesses but the many freelancers operating within it.

Adam Minns: I apologise in advance. Every time I come to one of these Committees I seem to get a throat infection. If I am even more unclear than usual, I apologise.

I am Executive Director of COBA, which represents commercial broadcasters in the UK. It is a very fast-growing sector. We have doubled the number of people we employ in the UK over the last decade. I represent a range of domestic and international channels. In this context, it is the international channels that are in the firing line for Brexit. By international channels, I mean broadcasters based in the UK that broadcast to other countries, primarily EU countries. They employ about 6,000 people. That is one in 10 people in the UK television sector, including John’s production sector. They represent more than half of all the channels licensed by Ofcom in the UK.

We have just issued a report. With perfect timing we published it during recess; it came out on Thursday. It looks at the value of those international channels. They are spending £1 billion a year in the UK on jobs, infrastructure and everything else. That has gone up by 50% on 2011, so you can see the growth potential in those international channels compared with a relatively saturated domestic market.

For us, the issue is similar to passporting, which was mentioned in the earlier session. Those channels need a licence from Ofcom, and it is recognised by EU countries, provided we are a member of the EU. Once the UK leaves the EU, unless we create alternative reciprocal arrangements of some description, they would have to take a licence in a remaining EU country, and restructure and relocate to support that licence.

At the moment, we are partially happy about our engagement with government. Ever since the White Paper came out, we have been assured that we are a priority and the Government are working on it. We had a couple of paragraphs in the White Paper, which was more than most sectors. Every time we have spoken to officials in DCMS and DExEU, we have been told that we are a priority. The problem is that there are, I suspect, many priorities, and once we get to the business end of negotiations, we cannot have every single priority, so we will have to see about that. At the moment, we are trying to keep the profile of the issue high, which is why we published the report. For example, we welcome the amendment to the withdrawal Bill tabled by Lord Puttnam, supported by Baroness Bonham-Carter and the Earl of Clancarty, about reciprocal arrangements for the creative industries. That would be very welcome.

The Chairman: Thank you very much.

Baroness Donaghy: Before I ask my question on the transition period, would it be possible for Adam to give us the reference to his new report?

Adam Minns: It should have gone to all of you, but I suspect it got lost in the deluge of emails you received during recess. I will resend it to you as soon as I get back to the office.

Baroness Donaghy: I admit it does not ring a bell.

Adam Minns: I can give you the headlines now, if you like.

The Chairman: Yes, very quickly.

Adam Minns: For the international channels, we stripped out all their UK-facing businesses and looked purely at what they were spending on services going into the EU. They are spending £1 billion a year on content, jobs, overheads, infrastructure and everything else. It has gone up by 50%. That is it in a nutshell.

Q40 **Baroness Donaghy:** On the transition, of course we do not really know what agreement will be reached and whether it will be a transition, an implementation period, a standstill or a delay of the horrible day for another two years. Whatever it is, presumably the industries you represent will have a preference as to how they see that transition period working for them. What are the implications for those industries and how do you think they will cope with it?

Tom Kiehl: We have been calling for a transitional phase since about September last year. We think it is very important to have that in place for certainty among the businesses we represent. By that, we mean continued membership of the single market and the customs union, given our primary concerns about freedom of movement and access for touring, and the further implications for increases in costs and delays at borders for the movement of physical products, or of goods for gigs, concerts and festivals. We think continuation of that should be the default position. We do not have a position on how long it should take, because it needs to enable us to fine-tune those adjustments. Once we are clearer about where we are, we might be able to say what it is reasonable to expect within a certain period of time, but as a default position we feel that is where we should be headed.

John McVay: It is hard to have discussion about a transitionary period; it is a bit like the cart before the horse. Without knowing where we are going, it is quite difficult to give an informed answer about what we need to do to get there and how long it may take, and then consult with businesses and give some proper answers.

I echo the perennial voice you will probably hear from all industries about visibility. We will probably not get everything we would like; it is a negotiation. I lead a campaign around the digital single market to stop some of the more egregious regulations the Commission would like to impose on our sector. It is very important in the negotiation that the creative industries, which are now a very important part of the UK economy, are properly recognised. I am concerned that, because we represent a number of sectors, and are lots of SMEs not single big employers such as biotech, automotive or defence, we can often be used as part of a sweetener in a negotiation, which is exactly what happened in the DSM agreement before the referendum.

The creative industries are a very valuable part of the UK economy because we are very resistant to AI and automation. We create products: clothes, channels, programming and new music. The BRIT Awards were on last night, with some fantastic British talent. It is important that the Government's recognition of the creative industries in the industrial strategy is reflected throughout government, and they recognise our value and the fact that we are very mobile and diverse, and are becoming more inclusive. We see real growth opportunities in other parts of the UK. Bristol, Manchester, Sheffield and Leeds are all fast-growing creative centres, which will create high-value jobs in areas that are resistant to automation.

Caroline Rush: I agree with and echo those points. A transition period will be essential no matter what the deal is, because our industry is made up of so many small businesses and freelancers, to make sure that we have time to communicate how they deal with it, and to give them the toolkits to prepare their businesses and put systems in place. We do not want a hard stop or an immediate deadline that will cause businesses to falter. We need the transition period just to get the information through.

Adam Minns: We are unequivocal. A transitional period would be fantastic news. A status quo transitional period would be brilliant. At the moment, we are in a terrible position. Channels are looking at whether they have to take out a licence in the Netherlands. If they do that, they will need to move people and investment; they will need to re-comply the channel according to Dutch regulations. That is going to take between six and nine months, depending on how many channels are moving, how big they are and how fast the corporations can move.

Between March and September, people will have to make a decision. If there is no clarity and people still do not know whether there will be reciprocal arrangements, they will have to take a licence in an EU country; otherwise, they will be broadcasting illegally if we hit the cliff edge. A status quo transitional arrangement would be fantastic because it would slow everything down. People would be able to make a decision in full knowledge of what the long-term arrangements looked like, so we would welcome it.

Q41 **Lord German:** Can I get a snapshot of where you are at the present moment? We know there is no certainty and people are still worried and concerned. You are manifestly putting forward a case for what you want to see in the future, but is business booming at the moment? Is it growing in the UK? Are the creative sectors growing? Secondly, what actions are they taking at the moment that might be affected by Brexit? What is happening on the ground now? The third aspect is about people. Everybody worries about the free flow of people and talent. Is there any evidence at present that that is happening?

John McVay: With reference to my previous remarks, the Creative Industries Council has commissioned some work on skills and migration that shows different profiles for different types of creative industries. In the special and visual effects sector, a lot of the big Hollywood movies that come to the UK enjoy our fantastic talent and facilities. The sector has very high levels of EU migration because it hires the best Spanish, Italian and German special effects technicians it can find. The overall position is that we will adapt.

We would like to invest more in UK skills. Effectively, we are prohibited across the creative industries by the structure of the apprenticeship system, which we have been discussing with the Department for Education to try to convince them to make it more appropriate for SMEs. By and large, my employers across the creative industries are paying a tax of £75 million a year to the Government, for which we are getting very little back, because the apprenticeship system is not flexible enough for our employers to invest in British skills and talent to get the skills critical to our future success. That is one big thing, regardless of Brexit, that we would like to see changed.

It would help all of us and address some legitimate issues raised by parliamentarians and others about why we are employing so many people from Spain, for instance. The answer is that we cannot find enough highly-skilled people. Because we are global in our opportunities, we have to hire the best talent we can find in the market.

Adam Minns: I support what John says about apprenticeships. The answer to your question is that it varies in different subsectors in the creative industries. Madison Square Garden was talked about in the previous session. Perhaps the live concert venue business is booming. In my sector, there has been a chilling effect for international broadcasters. I know of one company that was looking to bring its production division in another EU member state back to the UK to consolidate its operations. It has put that on hold. Another company was looking to expand in Italy and Spain with channels in those countries with Ofcom licences. Again, it has put that on hold because it does not know whether the licences will be valid.

On top of that, member states reach out to my members regularly, pretty much weekly, to say, "We're having a nice cocktail session at the Luxembourg embassy. Why don't you come? We can talk to you about what regulations you like and don't like". The short answer is that I think it has had a chilling effect.

Caroline Rush: The biggest impact at the moment is on attracting talent here. That is not just key business or design talent to be part of our fashion businesses; it is right the way through to manufacturing. From a skills perspective, the only way we are retaining our manufacturing in the UK at the moment is by bringing in skilled workers from overseas. Of course, we want to make sure that there are apprenticeships and opportunities to develop skills, and there are some really great schemes starting, but it is a long-term industrial strategy; it is not something that can happen in a two-year period. We need to make sure that we are attracting that talent. There have been some reassurances about talent, but not enough to make individuals feel they need to relocate here. In fact, some of that talent is going back to the countries it came from.

I mentioned warehousing. We have incredible warehousing facilities, providing great jobs in the regions of the UK. Moving those, or not investing in developing the resources we have here, is a definite challenge for us.

Lord German: Is that happening?

Caroline Rush: It is.

As regards the impact on individual businesses, they are continuing to trade but from events like London Fashion Week we know that a lot of sponsors are pressing pause on investment and spend until everybody understands where we are going. The only reason we can weather some of those challenges is the funding we receive through the ERDF, about which we have no surety going forward.

Tom Kiehl: From our perspective, it is important to recognise that the music industry continues to grow. Last year, we reported growth of about 6% in 2016, the Brexit referendum year. We are still the third largest global music market. In 2016, one in five albums bought in the Netherlands was by a UK artist; for Belgium it is a very similar figure. Italy, Germany and France are still very strong markets. We have to marry that up, but there is also very legitimate anxiety among a lot of people working in the music industry about future prospects.

It comes back to lack of clarity. We did a workforce survey last year that indicated that about 2% of people thought Brexit would have a positive impact on their work opportunities, whereas 50% said it would have a negative impact. The other 48% were either in the "Don't know" camp, or thought it would make no difference whatsoever. There is anxiety about what may come, and the lack of clarity in the Government's position about where ultimately they are headed probably brings that about. We are running that survey again this year, so it will be interesting to see whether the impact is similar.

John McVay: You mentioned growth. All the creative industries are in growth. We are growing year on year; we are now at £92 billion. It is not just about our ability to sell to the rest of the world; it is also about our ability to attract investment. If investors are not clear about the future of our businesses and the opportunities they may have, that can chill investment as well. We have benefited from investors from around the world. Pinewood Studios is now owned by a Chinese consortium. Many of my largest production companies have been bought by American studios and broadcasters. All that has been great for our economy; it has brought in huge amounts of capital. Entrepreneurs who have sold their businesses have generally started again and built up new businesses, so there is a multiple effect. A key point is not just growth but our ability to attract investment from our own financial sector and around the world, which makes us more competitive and prosperous, with more capital.

Lord German: You have all raised the issue of talent. The current ceiling in the visa system for people coming in from outside the EU has been hit for the past three months. Is there a correlation in your industries between that ceiling being hit, thereby people being turned away, and the talent you cannot get from the rest of the world? Is that what is happening? Are your members seeking people from outside Europe more than they were before?

John McVay: A TV distributor such as BBC Worldwide or one of my other big distribution companies tends to hire natives from the territory it is selling into because they know how the business works. They are native speakers, they understand the culture and how the business is done. Personally, I have just hired a Chinese woman to work for us because we are expanding in China. It took us a long time to convince the Home Office that we could not find anyone in the UK with equivalent skills. For certain areas of growth, those delays or difficulties absolutely diminish our opportunities. We want people who understand those business cultures because they will navigate quicker to opportunities for our British businesses.

Adam Minns: I echo that. Our sector, international broadcasting, has very similar issues to those for the distributors John was talking about. For international broadcasters, 15% of our staff are EU nationals and another 5% are non-EU and non-UK nationals. I thought that was quite small for so many international channels, but the point is that not only are they bringing specialist knowledge and skills to the table, based on their understanding of their home countries—they are facilitating the employment of everyone else. If my channel based in the UK is broadcasting to Italy, I want some people who speak Italian and know the Italian market inside out. Equally, there will be a halo effect for other people around them who could well be UK citizens and in fact are; they are the other 80%.

Caroline Rush: I do not think we have had evidence of the ceiling being hit. Our challenge is more about models coming in. Models might come to the UK for work in fashion week. They come for castings and then they might be employed for one or two jobs off the back of 60 interviews. The challenge is that every time they come another visa is handed out, even though it is the same individual. The agencies find that they are starting to hit a bit of a ceiling, even though it may be the same individuals coming into the country. It is the same for the music and entertainment industry. We need to look at this specifically and ensure that the visa laws are fit for purpose so that we continue to excel in the industries and showcases we have here.

Tom Kiehl: In music, people come to this country because they want to work with a particular producer or person. That link is very clear. Obviously, those networks will be maintained post Brexit, but any barriers that make it more difficult for those partnerships and future music creations to be developed will be very problematic. For the record, we estimate that around 10% of our workforce are from the European Union and another 10% from outside the EU.

Q42 **Lord Aberdare:** All of you by definition are creative, innovative and forward-thinking. Given where we are, and the state of confusion and lack of clarity, how are you looking at the future? Clearly, there are a lot of impacts, challenges and problems, and you have talked a lot about those. Perhaps we could focus on the second half of the question, which is about opportunities. What are you doing to identify the positive opportunities that might be created as a result of Brexit, and how strongly do they stack up against some of the problems we have heard about so far?

Caroline Rush: In the fashion industry, our businesses naturally trade globally, so the biggest opportunity is obviously to look at our trading agreements with countries outside the EU and make things easier, whether it is IP in China or tariff systems and agreements with other countries. We see those as opportunities, but a large part of that trade is happening with the EU at the moment, and we cannot ignore that and assume it will be replaced by trade from somewhere else.

John McVay: For domestic television, only about a third of our revenues come from Europe so we are more global in that sense. PACT has signed a number of co-production treaties with China and Brazil. We are pushing for more in Latin America. They tend to become frictionless trade agreements that allow us to trade freely in those markets.

The most fundamental thing is that consumers, whether of fashion, music, networks or production, which I represent, want good stuff; they want quality product. The UK is one of the world's leading quality providers of creative content, goods and services, so the opportunities are effectively unlimited. What we worry about is what gets in the way of taking those opportunities.

In these discussions, I often worry that we end up talking down a very confident and thriving creative sector that provides the world with a range of fantastic creative goods and services. We can do more; we can do better. We see great opportunity in evolving economies. They used to be called emergent; they are now emerged. China is an emerged economy. Latin America and Brazil are fantastic opportunities for great British creative products, goods and services, and we are taking those opportunities. Do not put the brake on; we will keep taking them. What we want to hear from the Government is how they can help us to do even better.

Lord Aberdare: It is a slightly odd way of looking at it, because what the Government are saying, surely, is that they are taking off the brake by getting out of Europe, and what you are saying is that you are steaming ahead anyway.

John McVay: Europe has never been a brake on my industry. There are no tariffs or barriers to selling TV or film programmes. The Americans sell a lot of TV and film to Europe and they are not British or European. They do it because European consumers and audiences want great content. Generally, that is what most markets are seeking. If a broadcaster in China is showing "Sherlock", a fantastic quality product made in the UK by an independent producer, it is quite hard to put up in the next slot a very poor quality domestic product. We are driving quality everywhere, and that means audiences want more quality; they want to see better stuff and they want better experiences. In particular, in areas experiencing fast economic growth people are becoming, like us, time poor, so, if they are going to spend their time, they want more quality.

The Chairman: We may need to come back to that in a moment, but I want to focus a bit on the future arrangement with the EU.

Q43 **Lord Lansley:** Forgive me if I have to slip out in a minute.

We have talked about the transition period. On the assumption that it is a status quo transition, it buys time. How much time do we need, and how much time is available? Mr Minns, you gave the example of shifting to the Netherlands and the period of six to nine months. Working back, that implies that in the future relationship one needs to know what it is going to look like, in terms, broadly by the end of 2019 in order to be ready potentially for the end of 2020. Ms Rush, you were talking about warehousing, distribution and so on. Some of those decisions are being made now because of the relative uncertainty.

Caroline Rush: They have to be.

Lord Lansley: Are there other examples that tell us something about the availability of time, or lack of it, to agree what the future relationship might look like?

Caroline Rush: One of the things that has come up as part of the many roundtables we have had since the referendum is not only the challenges of putting in systems and understanding in businesses, but concerns about putting systems in place at border controls at the point of entry or exit into the UK or EU. That in itself may cause goods to be held up or people not to gain access. It is not just thinking about what we need to do as an industry, but making sure there is ample time for testing the systems the Government put in place, because, with the greatest respect, they are not always necessarily the quickest.

Lord Lansley: That is a good point.

Q44 **Lord Wigley:** I understand that I have to declare again my family involvement in the creative industries.

What are your key priorities for the future UK-EU relationship, and how confident are you that they will be achieved?

Tom Kiehl: As I said at the beginning, the copyright framework is essential for us. About three or four years ago, we took out a legal action against the Government because we disagreed with something they were doing. That was primarily based on compliance with EU law. We won that case. It demonstrates the high level of protection we get from the copyright regime. We are relatively confident that that will be maintained, at least in the short term. The Withdrawal Bill, effectively, is taking in powers, directives and regulations in that sense. I think that will be positive.

The second priority is the lack of tariffs for physical goods, because even at WTO level they are zero. I hope they will be maintained. There is lack of clarity and a need for more confidence in the non-tariff areas, such as movement across Europe for touring musicians. We have been advocating something called a music touring passport, which would effectively provide a one-stop-shop to go into the European Union. Something already exists called the blue card scheme, which people from outside the EU can use to enter the market. It would not exactly replicate that, but at least it creates a useful precedent that we can work from.

In the short term, there is a very big concern for certain people in the music industry about artists from outside the EU who use UK haulage companies for their European tours. As soon as hard borders are erected, potentially in 12 months' time, there could be a concern. Our focus is agreement on non-tariff barriers. There are other strong priorities, but that is where we would hope to get more movement.

John McVay: Our main concern is about any impact on exports to the EU of TV content. We are a net exporter. Currently, our programming is covered under the European Convention on Transfrontier Television, which is a Council of Europe measure. So far there is no music or noise that that is going to be challenged, but who is to say what the Commission may think of post an agreement? We would like to see some clarity and security about reciprocal recognition of European works between the UK and EU.

We have a number of channels that come under Ofcom regulations. Walter Presents is a good one. They are required to show a certain degree of European work. French programming qualifies, as does British programming on German television. Angela Merkel enjoys "Midsomer Murders"; it is her favourite programme. The countervailing force is audience demand. We hope there will be sensible understanding that that can be dealt with.

The other key area of concern would be visas for global talent, for us to develop businesses in other parts of the world—for example, China—and how easy that will be, what the cost will be and what complexity we will face. That could be of detriment and it could decrease our opportunities in those markets. When you are a market leader like the UK, everyone else copies you. Where we go, everyone else goes in after us. I have been on a number of tours to China, and right behind us were the Australians and other territories that are using us to open up the market as a way to get in their products, goods and services. If we are not fleet of foot and if we do not take full advantage of the good work we have done and are not able to exploit it, others will.

Caroline Rush: From the talent perspective, I completely agree. I reiterate the point about IP. We need to make sure that our businesses are protected and that we are not encouraging them to show their product within the EU before they have shown it here. It is a market that can speak to the world, which is incredibly important. It is really important to think about the funding piece. What will replace ERDF funding for many creative institutions throughout the UK?

The final point we have not touched on is the idea of reputation. We all trade on Britain's reputation for being global, open and creative. The idea that our reputation will be hindered because of some of the things that are put in place will be a challenge. Anecdotally, we are already hearing that cities such as Berlin and businesses in Italy are trying to attract talent and businesses to be based there, because they will have access to the EU that they will not have in the UK.

Lord Mawson: On the Berlin point, one hears quite a bit about this. I have friends whose children are living in Berlin at the moment. From what you are saying and we all know, the conditions necessary to create the sort of creative talent pool that is appearing, certainly in parts of London and elsewhere, are multifarious, and a number of different things have to occur to make that happen. How much of a threat is Berlin in reality?

Caroline Rush: There are probably a few businesses. There are many challenges, not just challenges around Brexit, but other cities are using that as an opportunity to open doors. We already have challenges for young creative businesses on studio space, business rates and things like that. They may be looking at having a base for a team in Berlin, with a footprint in the UK because they find it so expensive to run a business here.

Lord Mawson: But are there the conditions in Berlin to take on the British music or fashion scene? Do those conditions anywhere near exist?

Caroline Rush: I agree with you; I do not think they do. We have built over many years a reputation and a brilliant multicultural, open and creative environment for our creative industries, which really are a community in the UK. It is very much based on our heritage and culture, but that does not stop other cities trying to attract talent. When you are a small business and you feel isolated and going somewhere else looks very appealing, you may not necessarily take that reputation into consideration, but it is incredibly important.

Lord Wigley: Can we go back to the answer to my question?

Adam Minns: We asked our CEOs that question as well. How attractive is Berlin, although not from a fashion point of view? I suppose Milan and Paris would be our main competitors. We asked CEOs, "Why are you in the UK as opposed to other member states?" The answers that came back was really interesting. They said that the UK has no weaknesses. It is particularly strong in the English language; it is strong in creative talent; and it is strong to average on infrastructure, transport links, corporation tax and everything else a global multinational company would look at. Other member states in Europe might be stronger in certain aspects. In eastern Europe, the cost of labour would be much better for us, but there might be significant weakness—for example, no airport link.

The issue for us is that, if you cannot get a valid licence from Ofcom, the rest is meaningless. You have to have a licence in order to broadcast legally, so you have to go somewhere in Europe to get that licence. That entails, as Sam mentioned in the earlier session, having a significant part of your editorial workforce there. There is an issue, and we cannot just assume that because we are so strong in other areas we can rest on our laurels.

Our priorities are much shorter. The first priority is a status quo transitional period as soon as possible, March or April, and some clarity would be fantastic. The second priority is reciprocal arrangements for broadcasting between the UK and the EU in a long-term arrangement.

Lord Wigley: Can I go back to the point Caroline Rush made a moment ago? You twice mentioned ERDF funding. Have you asked the Government about the replacement of ERDF funding, and what response have you had?

Caroline Rush: The response has been that the money paid into that fund will be available, but there is no surety that those kinds of grants will be available for the creative industries.

Lord Wigley: Ah.

John McVay: With Caroline and others on the Creative Industries Council, we did a quick report post the referendum about 18 months ago that we delivered to government. The big challenge we had on issues such as ERDF and indirect funding for our creative industries is that no one in government knows what it is, because it goes through local authorities or other agencies. The seed funding for a creative workshop in Bolton that a fashion designer came out of was all indirect, so quantifying that is difficult. We have to hold government to account so that, if they say they are getting so much money back, they make sure it is reinvested in the parts of the economy that previously benefited from it. The big problem we have is establishing how much that was, and then how it will be delivered. That is a big challenge for all of us.

The Chairman: What I find interesting in relation to a future EU deal is that, although most of what you are talking about reflects the problems of your sector, they are also general issues.

John McVay: Yes.

The Chairman: Whereas last time when we saw some of you and others from your sector, I felt you were all looking for a free trade agreement that had a specific sector and that more or less preserved the status quo, and ran into the EU's cherry-picking objection. Am I right in picking that up?

John McVay: I can only speak personally. My colleagues may have other views. If we are trying to create an FTA or an agreement that is the past repackaged as the future, it will not satisfy a lot of the reasons for the opportunities and challenges we have. There is a programme called Creative Europe that benefits a lot of our film and animation producers, and helps film distributors get British films into the European market. We could still be a member of that, or, if the money comes back, we could have our own creative Europe programme that helps to subsidise products to get into that market. We need clarity on which way we are going to go. I am often accused of being 'glass half full' on this, because I have a lot of confidence that, if we get clarity and some sensible engagement with government, we can do things that make us even more successful.

Adam Minns: We are part of an informal group of audio-visual sector organisations, ranging from games to film and TV. We are all trying to come together to find common ground on an arrangement with the EU that would work for us. As well as preserving things that we have, we are looking at the future and thinking about what more we could offer. Where else could we collaborate with the EU? We are looking at training, diversity and things like that at the moment.

The Chairman: We go on to the other alternative.

Q45 **Lord Mawson:** What are the implications of a no-deal scenario for creative services, and are you making any preparations for that outcome?

Adam Minns: For my members, the implications are that, if there is no deal whatsoever, the international channels would need to get a licence from one of the remaining EU countries. It is unclear how much they would have to relocate in order to get that licence. EU law requires you to have a significant proportion of your editorial workforce there, which means channel controllers and schedulers—quite senior people. Those people would not be working in isolation; they would need IT, legal, compliance and other people supporting them. Potentially, we are at risk. We are talking about one in 10 jobs in the UK television sector, and up to £1 billion a year in investment.

John McVay: If we are looking at WTO, and there are any fiscal tariffs on British programming being sold to Europe, by and large we will pass them on to the buyer; that is what will happen. Whether that will diminish our competitiveness or opportunity in the market is quite hard to model. It is a very competitive market. Right now, quality content is going at a premium. At the BBC showcase in Liverpool, which has just finished, 600 global buyers had their big fat chequebooks out competing to buy great British content, or to invest in it. It is quite hard to know, on that model, what real effect it has.

At the end of the day, to go back to my earlier point, consumers in Europe want great British services and content. I understand Adam's problems, but, if there was a premium on direct export sales into Europe, we would add that to the price for the buyer.

Tom Kiehl: I mentioned that there are zero tariffs, even under WTO rules, for physical media, but there are still implications. There could be delays at borders and logistical aspects, and that should not be underestimated. In turn, there are very real problems for people on the movement issue. At the moment, a band that is starting out can play a gig in Amsterdam one night and another concert in Paris the next. That is a strong imperative for groups to develop fan bases and get to global stardom in the long run, but as soon as you start creating issues there it becomes very problematic.

Caroline Rush: I would be particularly concerned about small businesses. For established businesses, of course it will cause challenges, but they have resources they can throw at it to understand how to do it and get through it. Small businesses will be really challenged. Part of the creative industries is about providing opportunity. People think the fashion industry is glossy and glamorous. Many of the individuals who start businesses do not come from privileged backgrounds, and they work very hard to build their business and their success, and you are putting that opportunity at risk.

Adam Minns: The SME point is interesting. It applies in our sector as well. We have about 750 channels based in the UK that broadcast internationally, which is just over half of all channels here. I looked at who these people are. I had not heard of about half of them. Often, they are broadcasting in languages other than English; they are quite small and they serve various cultural minorities around Europe. They are not COBA members. COBA members would be able to relocate; they would not want to, but they would be able to do that. How many of those smaller channels would be able to move to the Netherlands? A tiny operation run on very low margins, perhaps with no profit at all, may have to close or move online.

The Chairman: Let us end on an upbeat note.

Q46 **Lord Rees of Ludlow:** I want to ask about opportunities outside the EU. The evidence from the British Fashion Council said that the Government could do more to make it easier to deal with the US, China, Japan, South Korea, et cetera. Would you like to say anything particular about that?

Caroline Rush: There is a lot of opportunity in those markets. As part of our strategy, we are very focused on how we can have strategic partnerships with China, the Middle East and the US that will open up those markets even more. In China, there is a big problem in trademarking, particularly for the fashion industry. Simplifying that will open the market for many more businesses, and if there is an opportunity to do deals on those things it could help us start to progress the growth of businesses in the Chinese market.

John McVay: America accounts for 50% of all UK TV exports and commissions. We make quite a lot for American networks. We are the only country that really has a share in the American market. We have a problem with co-production treaties, which are like FTAs for audio-visual. The one we did for China was asymmetrical, whereby the Chinese have full access to our market but they control access to theirs. If we are to do those sorts of co-production treaties in future, I would much rather the Government pushed harder to make sure that we have more open access to those markets and there are no non-tariff restrictions. In the case of China, there is a restriction on how many formats are allowed on the network, while here we would buy any number of Chinese formats if they were any good; there would be no restriction.

Lord Rees of Ludlow: We probably do not want theirs as much as they want ours.

John McVay: Yes, at the moment, but when you are a market leader the problem is that people tend to try to copy you or look at what you are doing. I am currently hosting a delegation of 20 leading Chinese executives who are embedded in British production companies for the next 10 days. They are learning how to be more creative and how to up their quality, because we want to do more co-production, and it is easier to work with them to make it in China rather than trying to go in directly ourselves.

Tom Kiehl: With music, America is a big potential opportunity for us. America is the biggest market; we are the third biggest, and the two combined are bigger than the rest of the top 10. Quite simply, there are issues. However, for us entering that market there are already problems with visas for touring artists; there are issues around something called the bars and grills exception to copyright, FM radio and the royalties they bring back. We should be having a strong conversation with the American authorities about some of those issues. China is potentially a huge market, but getting the enforcement regime in place adequately to return value to music in the UK needs to be addressed.

Adam Minns: I probably need to say something positive about Brexit. It will be short. For us, the opportunity is in free trade agreements with non-EU countries. At the moment, Ofcom can give you a licence for an EU market, but it cannot give you one for your South African, Indian or South American channel. That will be very interesting, but I have to stress that it does not replace the EU. If we lose the EU, no one will have their South African channel based in London with everything else based in the Netherlands. It just does not make financial or organisational sense. We need to get our bedrock, our core market, sorted out first and, hopefully, we can build on it.

The Chairman: One of the other alleged opportunities is that we are taking back control of our own regulation. Are there any EU regulations at the moment that you would like to see thrown out or significantly modified?

Tom Kiehl: I have considered this, and I have not been able to identify one yet. On copyright, over the last two decades we have had a lot of extensive consultations about whether the framework is fit and proper. We have now got to a very good point. Taking into account the instability caused by Brexit, to launch another review on that would be very unhelpful to the confidence of our industry.

John McVay: There are some that I do not think will transpose neatly, and the Government are well aware of them in relation to the digital single market. My main worry, given that we are a net exporter to the EU, is about the other regulations the EU might introduce that we would have to live with but would have no say on.

Adam Minns: I was looking at my phone to try to work out the name of the hideously complicated Treasury review going on at the moment, but I cannot find it. There is a Treasury review looking at IP corporation tax, which we will have a look at. There may be something we can do.

Caroline Rush: For us, the main one is making sure that IP laws around unregistered Community design are reflected as part of the negotiations.

The Chairman: Generally speaking, the job of this House, which started in Committee last night, of simply transposing EU regulations does not cause you too many problems, at least not at this stage. If there is anything final you want to register with us, please do so. Thank you for your time and your continued interest in our inquiries. We will continue our interest in your sectors, which, as you rightly say, are very important to the future of our country and our society. Thank you.