HOUSE OF COMMONS

Welsh Affairs Committee

Oral evidence: Brexit: Agriculture, Trade and the repatriation of powers, HC 402

Tuesday 13 March 2018

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Watch the meeting

Members present: David T. C. Davies (Chair); Chris Davies; Geraint Davies; Glyn Davies; Susan Elan Jones; Liz Saville Roberts.

Questions 365-432

Witnesses

I: Professor Nicholas Perdikis, Professor of International Business, Aberystwyth University.

Examination of witnesses

Witness: Professor Nicholas Perdikis

Chair: Welcome, Professor Perdikis. Thank you for coming along here today. I understand, sir, that you are an academic from Aberystwyth University but you are currently on secondment with the Welsh Government.

Professor Perdikis: Yes, I am the Welsh Assembly Fellow. I am not quite on secondment, but I am doing some work for them.

Q365 **Chair:** Excellent. On Brexit?

Professor Perdikis: Yes.

Q366 **Chair:** Hence the reason for this meeting. I have read your report with great interest and I will come back to certain aspects of it in a minute. Can I start by asking how accurate you think your forecasts are?

Professor Perdikis: That is a very good question. How accurate are they? Insofar as we have used the data that we have available and the techniques that we have, and they are accurate, a lot depends on the assumptions that have been made in this study. I should imagine that what you are asking me is: why are our results a little different from the ones that you have seen elsewhere? That is probably due to the difference in the assumptions that we make and, also, the extent to which we were able to carry out our study. In a sense, ours were, first, just going through the implications of the imposition of certain tariffs and NTBs and then their removal by CETA, so I think that is where we come with those differences. It is not completed as yet, and I want to go back and check through some of the work that we and others have done and try to reconcile some of the differences, if we possibly can.

Q367 **Chair:** If we take something like the May 2016 Treasury report—

Professor Perdikis: Yes, which I have not seen.

Chair: You have not seen that?

Professor Perdikis: No.

Chair: Obviously, this was the report that made predictions about what would happen in the event of a vote.

Professor Perdikis: Yes.

Q368 **Chair:** You will be aware that the predictions were way out and completely inaccurate. The predictions in this Treasury report were—this is in the event of a vote, by the way, not Brexit taking place—that in the two years that followed, there would be a profound shock to our economy, the shock would push the economy into recession leading to an increase in unemployment of around 500,000, GDP would be 3.6% smaller, and so on. This was produced by Professor Charles Bean, who is described by the Treasury as one of the country's foremost economists and a former Deputy Governor of the Bank of England. I will not go through it all. The predictions made in this are completely inaccurate, aren't they?

Professor Perdikis: I am not sure what you mean by accurate.

Q369 **Chair:** Well there hasn't been any increase in unemployment, has there?

Professor Perdikis: He uses his techniques and he uses his data. It could be that our data is slightly different to that which he has used so, therefore, we come to different conclusions.

Q370 **Chair:** Therefore, although you have not seen the report, you would suggest that your modelling will be better than his?

Professor Perdikis: I would not make that conclusion until I have read through his report and looked at the data he has used and the data we have. We have come out with much lower estimates than he has.

Q371 **Chair:** Forgive me for saying this, but this report was quite well publicised, and this is a report into what will happen as a result of Brexit. It surprises me slightly that you have not seen it because, if nothing else, I would have expected that you might have wanted to understand what modelling techniques had been used by the Treasury, and by a former Deputy Governor of the Bank of England on behalf of the Treasury, to come up with these predictions. Did you not think that was worth doing?

Professor Perdikis: I would have thought it was worth it, but I did not have a chance to look at it, so I continued doing what we did. To some extent, I did not want to be influenced by what others had done either, so that we could come out with a clear picture of what we were doing.

Chair: But this has been widely received.

Geraint Davies: Chair, the predictions being made by the professor are about what will happen now, after Brexit and everything. Those are predictions that predated the referendum itself, aren't they?

Chair: I am just asking the professor a few questions.

Geraint Davies: We do not want to spend too much time on that. Most of the predictions are wrong.

Q372 **Chair:** Come on, now; I am very tolerant when people want to ask questions, but it has to be directly between myself and the witness, and this will be the final one.

These predictions are inaccurate. There has not been an increase of 500,000 in unemployment since Brexit, has there?

Professor Perdikis: No, there hasn't. Not yet, no.

Chair: So this would be inaccurate. Therefore, can we assume that your predictions are more accurate than the ones contained in this report?

Professor Perdikis: As I say, I would not want to draw that conclusion. What you are saying is completely correct, in that the predictions that came from that report, which were the pre-Brexit ones, certainly made Brexit look pretty bad. That is what I think you can draw from that. But, certainly, from my perspective, I would like to go back and check what I have to make sure that it does actually fit with other predictions that have been made, so that we can check the accuracy of our predictions and the accuracy of others.

Q373 **Liz Saville Roberts:** I would like to rephrase the Chairman's question. I think that when we are talking about predictions, the question about how we make those predictions is valid. Could you tell us, as a committee, how your methodology deserves to be considered as robust?

Professor Perdikis: We use pretty standard techniques. They are computable general equilibrium models—things of that ilk. We tried to establish a benchmark against which we could make the predictions. As a benchmark, we used the IMF's predictions for the UK economy between, I think, 2011 and 2050, and then—looking at the changes that would come about through tariff imposition or removal—we then tried to work out what would happen using an input/output table for the Welsh economy. That is what we tried to do.

Q374 **Liz Saville Roberts:** Which is standard practice, isn't it?

Professor Perdikis: It is standard practice, yes.

Q375 **Geraint Davies:** On the accuracy of your predictions, is it assumed in your predictions that, during the two-year or 18-month transition period from next March, trade will continue with third countries as usual?

Professor Perdikis: Yes.

Geraint Davies: Other people have said to me that while those third countries in the transition period will continue to have the right to sell stuff to us through the EU arrangements, unless they sign up to an agreement, we do not have a right to sell to them because, technically, after Article 50 hits the table, we have left. There has been no confirmation from any of these countries that they will continue business as usual, and obviously they have an interest in screwing us over.

Professor Perdikis: Yes. This is an area that does concern me a lot, as to whether in fact we can grandfather the agreements with them. Most of the trade lawyers I have spoken to about this tend to swing between "Yes, you can," and "No, you can't." Somewhere in between, hopefully, there is some sort of truth.

The ones I have spoken to seem to suggest that you cannot grandfather the agreements, and that even in the transition period it might be difficult to maintain those relationships.

Q376 **Geraint Davies:** This morning I had a meeting with a person who is directly involved in these trade agreements. He has done a lot of work with the WTO and he points out that these third country trade agreements are about 15% of imports and 14% of exports, so they are quite significant. If they suddenly change significantly in the transition period, and indeed thereafter, that will surely make your predictions very ambitious. Namely, things will be a lot worse than you are telling us.

Professor Perdikis: They could be worse. If you look at the Welsh economy, it trades very heavily with the EU and very little with other members outside of the EU, so I am not so frightened about that having an impact on Wales. That is possibly why we come out a little bit lower than that.

Q377 **Susan Elan Jones:** I know there are all sorts of things to do with Brexit we could chat about, not least the growth forecast and growth figures for this country, vis-à-vis other G7 countries, but I will stay out of that one for the moment. I would like to ask about the scale of Welsh exports and how Wales differs from other parts of the UK in terms of exports. We do know that many aspects of the Welsh economy are different. What are Wales's key interests in the UK's future trade policy? Are there any areas where Welsh and wider UK interests are incompatible or where UK priorities are likely to trump those of Wales? I would like to ask something else, just to be topical. The UK Government have basically said that certain powers, including some of those related to agriculture, will be decided here and not repatriated to the Welsh Government. Do you see a problem with that?

Professor Perdikis: I don't know. That is a little bit outside my field of expertise. Your first question was, I think: are there any areas where Wales would be affected more by Brexit than other areas of the UK? We looked at the areas in our study and we found that the ones that would be most affected were agriculture, automotive, transport equipment, machinery, manufactured goods, chemical and related products, food and live animals. Those are the ones that are going to be impacted most of all.

As I say, our study was pretty limited and very compact. This was not a study where I was taken out of the university and given a set of research assistants. There were just two of us working on this, plus a research assistant. We had to limit our scope quite a lot in order to get the work done, so we did not look at sectors in enough depth to be able to answer your question.

Q378 **Susan Elan Jones:** Could I ask a quick supplementary on that? How do you see the automotive industry being affected?

Professor Perdikis: In the report that we did, the automotive industry was going to be affected quite severely. In one of our tables we showed that the impact of no deal on the automotive sector was going to be quite severe, and that there would be a decline of somewhere in the region of 24%. I am fumbling, so please forgive me. No, sorry; the long-term impact on exports would be down to about 4% to 5%—that was going to be the impact of a no deal on cars.

Q379 **Chris Davies:** That is an interesting point. Mr Davies said that your report was reasonably optimistic, whereas it could be worse than you have suggested. Would you agree that it could also be better than what you were suggesting? I am finding that there is a theme here, namely that—forgive me for saying this—every academic we have had sitting in front of us has come out with a very doom-and-gloom proposal for the future of the economy in this country, but every business owner and everybody with hands-on experience of running a business seems to be quite optimistic. I wonder if you could just square the circle for me. Why is this happening, time after time?

Professor Perdikis: Could I square that circle for you? Academics usually just take the evidence, work through the numbers and present the numbers. I am not sure that all business people are optimistic about it. I have spoken to several people in Wales, and in the CBI and others, who are somewhat pessimistic.

Our study suggests that things are not quite as pessimistic as some people make out, although in our study there is confirmation of the idea that Brexit would lead to costs. Those costs might well be acceptable for other reasons; or, if there are costs, Government might need to make other changes in terms of legislation, what business does and how it does it, in order to square that circle.

Governments are going to be faced with an issue. If we leave the EU, as we will be doing, and we do not trade with the EU on a free trade basis, trading with the EU is going to be more costly than it has been in the past. That is a given. It is up to Government and business, in many respects, to say how we reduce those costs.

To some extent, our report is saying, "Yes, we agree with what other people are saying that there is going to be an adverse impact. This is the magnitude of it. Now it is up to Government to try to ameliorate that in some shape or form."

We all know business people. They don't just sit there waiting. They make changes themselves. They make strategic decisions. Firms are going to be making strategic decisions. Any firm worth its salt must be, at this stage, making these strategic decisions as to what outcome they expect to come from the Brexit negotiations and how they are going to deal with those outcomes.

Q380 **Glyn Davies:** We are leaving the European Union, and at the moment the Government are working to secure an agreement with the European Union about future trade. I have no doubt that part of those negotiations and discussions relates to sectoral differences, and how some sectors might behave differently from others. That is what I want to ask about. When we look at sectoral differences, we are looking at those where we can have some sort of an agreement that is helpful to the United Kingdom. Cardiff Business School is implying in a report that even within sectors—if you look at the motor industry, part of the motor industry might benefit from a special arrangement and other parts won't. It is to do with imports and exports, I suppose. Do you agree with Cardiff Business School that you cannot have this sort of sectoral agreement without it still having very negative impacts on some parts of the economy, even those that supposedly get an agreement?

Professor Perdikis: I would be very sceptical as to whether you can have a sectoral agreement full stop with the European Union. I am not sure how you could do that and what the implications of it might be. I know they would not like it. They might be willing to do it eventually, but I don't think they would like it. The idea that there would be a sectoral agreement of some form is, I think, very hypothetical.

There has been some work on sectoral agreements by people at Sussex, and the conclusion that they have come to is that you cannot really get them.

Q381 **Glyn Davies:** None of us is part of the negotiating process, and I suspect they are and will be having a pretty complicated discussion and debate. I hear a lot of people talk about the sectoral approach, but if you do not have a sectoral approach, what kind of arrangement might you have? I would not say I was down at the pub discussing this with everybody, but what would be the basis of a discussion about how the negotiation might go where you might want to pursue a UK advantage?

Professor Perdikis: The answer is that I don't know. I remember with some of the discussions that took place between the EU and India—there were lots of questions about sectors in that proposed agreement—the whole thing started to clog up once you started to get down to the nitty-gritty. There seemed to be a reluctance to go that deeply into things. They wanted an agreement to be more on the surface and to sort these things out later. My worry with a sectoral agreement is: where does a sector end? That is the issue.

Q382 **Glyn Davies:** Let us take a look at, say, the CBI; I quite often see that as an example. The CBI will be quoted as having an opinion: "This is the CBI view." There are hundreds of thousands of businesses, yet only a small proportion of businesses are members of the CBI. It will probably be a certain type of business that becomes involved in developing CBI policy. There will be hundreds of thousands of businesses out there that are much smaller and not the same, so having the view of a sectoral interest is pretty difficult, don't you think?

Professor Perdikis: I would think it would be very important, but I am not sure how people can square that circle.

Glyn Davies: No.

Q383 **Liz Saville Roberts:** To what degree is there a risk of different sectoral priorities having beneficial or negative impacts on different nations or regions of the United Kingdom? Say the financial sector of the City of London was prioritised to the exclusion of other areas—like upland farming, for example, in Dolgellau, Meirionnydd—that have a lower impact on the UK level of GDP but are important community-wise. What is your interpretation of those possible situations and the likelihood of that happening?

Professor Perdikis: For Wales, anyway, the financial services sector isn't that important to the economy as yet, although a lot of the manufacturing stuff that we see, and the exports that they deliver, have a service element in them. I think that could have an impact from there. Certainly, things like agriculture would be very important, although it is a small part of the economy, isn't it? As far as people are concerned and other issues—the language, and things like that—there would be quite a hit there if you did not have some sort of agreement with agriculture.

I gather from my colleagues in other places that sheep meat would certainly be affected very adversely if there wasn't an agreement of some sort. What we are talking about is: do we have an agreement or don't we have an agreement?

Q384 **Liz Saville Roberts:** What I was trying to ask—I may not have expressed it particularly well—is this: if certain sectors are prioritised, will that have a particular negative or positive effect on Wales, which is our interest? Then I was asking for your take on the likelihood of that, if that is a fair question.

Professor Perdikis: I suppose it would. I am struggling to answer the question.

Chair: There are several people with supplementaries, and then it is going to be Chris's question. Did you want a supplementary, Glyn?

Q385 **Glyn Davies:** Liz raised the issue of agriculture as a sector, which I think is crucial. Within that, on the face of it, there is the potential negative change of no deal for the lamb industry, big time.

Professor Perdikis: Yes.

Glyn Davies: Well, we export lamb, big time, but then Britain imports beef, pretty big time.

Professor Perdikis: Swings and roundabouts.

Glyn Davies: You would have thought that importing beef would be not so much negative as positive.

Professor Perdikis: Yes.

Glyn Davies: That is why even the agricultural interest is divided on that.

Professor Perdikis: Yes, certainly, and then there are those who deal in crops and stuff like that, and there is another angle to that.

Chair: Do you have a quick supplementary on this, Geraint?

Q386 **Geraint Davies:** On sectors, and specifically on Airbus—you highlight them as one of the biggest employers—they are busily saying that if we are not part of the customs union and the single market, they are moving out, in essence. In the short term, they are going to put more of their stocks into mainland Europe so they don't have to get over the customs wall. Have you factored in Airbus leaving into your numbers?

Professor Perdikis: No, we haven't. When we looked at the CETA deal, we assumed that it was just a free trade deal and not a common market deal—just that type of stuff—so we did not factor in that. I would think there is a big concern, long term, about Airbus.

I would think that at some point in the future, Airbus would want to consolidate their activities in one place. That would be the standard economic sort of view of things. These days, even in aerospace, supply chains are very broad and geographically very dispersed.

Geraint Davies: What they are saying is that they need to have parts and people moving across borders seamlessly, and they need to be in a single market and customs union so that—

Professor Perdikis: I think that is true; it would have to hold higher stocks in case there were hold-ups at borders, and stuff like that, given the types of agreements that we have at the moment and the way customs procedures take place.

Geraint Davies: They are not going to stay in Wales, are they?

Professor Perdikis: No.

Q387 **Chris Davies:** At our last session, Professor Patrick Minford—I am sure you know him, or are certainly aware of him—argued that reducing barriers to imports would increase the productivity of the Welsh economy and, therefore, reduce prices for consumers. Would you agree broadly with that?

Professor Perdikis: I would agree to the extent that that should happen, other things being equal. Whether other things are equal or not is another matter, in the sense that if you take away trade barriers then products should become cheaper. Whether that feeds through to productivity, as such, I think is more questionable.

Q388 **Chris Davies:** So you do not think they are related?

Professor Perdikis: I would not be definite on this. My own personal view is that I think it is far more complex than that, and it would not necessarily follow. Whether people buy certain products on the basis of price—I am not sure whether that is the main determinant in certain areas. There are things—quality of products, and stuff like that—that you have to think about, as well as the way firms are geared into supply chains and all that sort of stuff. I am not so sure that it is as direct as Patrick suggests. Trade has been shown to increase productivity, in that competition through international trade certainly spurs firms to use their resources far more efficiently than they otherwise would, so trade in itself would do that.

If I read you correctly, Patrick is probably saying that making goods from the UK cheaper increases the volume of trade and, therefore, increases output by firms that engage in trade, which therefore increases productivity. I can see that. I would certainly go along with that.

Q389 **Chris Davies:** I have two points on the Welsh Government. The Welsh Government have stated that increased competition from foreign imports can undermine parts of the domestic economy and erode the demand for skilled workers. In your opinion, how significant are those risks?

Professor Perdikis: From the work we have done, certainly, skilled workers in Wales do see their incomes decrease over the period that we looked at.

Q390 **Chris Davies:** What are you putting that down to? Is it just the devaluation of the pound?

Professor Perdikis: That would be a loss of trade as a result of trading at WTO rules. What Patrick has done is to say, "You are coming out of the EU. You are going to trade at WTO rules. Now let's get rid of tariffs. There are costs involved. Let's mitigate those costs by getting rid of various rules and regulations and import taxes. We won't trade with WTO rules. We will get rid of those." I think that is what he has done to reach the conclusion that he has reached.

Q391 **Chris Davies:** My understanding is that your opinion on trading under WTO rules is very different from Patrick Minford's.

Professor Perdikis: I am saying, "Here are the WTO rules. We are trading at that." Patrick has gone one stage further, I think, and said, "Let's get rid of any import taxes that come on our products or foreign products coming in from outside the UK."

Q392 **Chris Davies:** I understand that your new position is advising the Welsh Government, and I wonder how you got involved in that. In my last question, I mentioned what the Welsh Government have stated about increased competition and so on. Was that your opinion or your recommendation to the Welsh Government?

Professor Perdikis: No.

Q393 **Chris Davies:** How are you going about recommending to the Welsh Government, and are they following your opinions?

Professor Perdikis: I don't think they follow my opinion. They just asked me to do a piece of work for them.

Q394 **Chris Davies:** All right. So you are not in there weekly, daily or whatever?

Professor Perdikis: No. That is why I said at the beginning that I was just asked to do a piece of work for the Assembly, not the Government.

Chair: Susan, you have a quick supplementary on that.

Q395 **Susan Elan Jones:** Yes. Patrick Minford was quite unclear about what the position of tariff-free access would be if our country did not get reciprocal access. From my understanding, Professor Minford said that he still supported tariff-free access in terms of inputs.

Professor Perdikis: Inputs, yes.

Susan Elan Jones: I would be interested how you see that. Effectively, that is giving a subsidy for other countries basically to flood our markets. Is that the case?

Professor Perdikis: It makes it easier for them to sell their goods in our markets, certainly.

Q396 **Susan Elan Jones:** If one were a New Zealand farmer, wishing to bring lamb into this country, one would be overjoyed. You would be jumping for joy, wouldn't you, on that analysis? I certainly would.

Professor Perdikis: If I was a New Zealand farmer I suppose I would, yes.

Q397 **Chair:** Would you? But they can already export as much lamb as they wish to, tax free, can't they, at the moment?

Professor Perdikis: At the moment they don't have any restriction, nor do they support their agriculture—

Q398 **Chair:** But they do not have to pay tariffs at the moment, do they, so it would not make any difference?

Professor Perdikis: I don't know if it comes into the EU tariff-free. I am not sure.

Q399 **Chair:** It comes in tariff-free up to a certain level, which they—

Professor Perdikis: And then the quota comes in, yes.

Chair: They have only reached about 75%, haven't they?

Liz Saville Roberts: They are not using the whole tariff. Just to take that question a bit further, Professor, under the model that Susan Elan Jones mentioned just now, what would be the impact on manufacturers in Wales? Given that consumers might have cheaper prices, how might that impact on manufacturers who would otherwise be selling at home and exporting?

Professor Perdikis: I am finding it difficult to hear; sorry.

Q400 **Liz Saville Roberts:** The model that Susan Elan was talking about just now referred specifically to Welsh lamb. If we extrapolate that out, how would the model that Professor Minford presented us with affect manufacturers in Wales who intend to sell at home and maybe export as well? If they are potentially facing a flood, which sectors would be most threatened—or advantaged, to be balanced—by that situation?

Professor Perdikis: It could well be all manufacturing, automotive, transport equipment and all the rest of it. If you are going to remove any tariffs on goods coming into the UK, it is going to have that impact. Firms will look at that strategically and make certain decisions as to how they are going to meet their competition. I should imagine that what most firms would then want is some help—not necessarily subsidy—in changing working practices, rules, regulations and that sort of stuff, in order to be able to reduce their costs.

Q401 **Geraint Davies:** A number of different estimates remain on how the different future UK trade arrangements will affect the Welsh economy, according to whether we have a single market, a free trade agreement, no deal and so on. What economic impact do you think the different possible arrangements will have on Wales and who will be the winners and losers, in general terms?

Professor Perdikis: When you say "different arrangements", do you mean arrangements other than the ones that we have here?

Q402 **Geraint Davies:** No; I was simply hoping that you would elaborate on the differences between no deal and what you think the Government are trying to achieve with a free trade deal—that is, as opposed to staying in the single market and customs union.

Professor Perdikis: A no deal scenario—that is, trading at WTO—would reduce the GDP for the Welsh economy. The sectors that would be impacted adversely were the ones I mentioned before. Real wages of skilled and unskilled labour would be down between 2.5% and 3% compared with what they are now, so there would be an adverse impact there.

If we go to a CETA-type arrangement, real GDP is not impacted as adversely because you are trading freely with your principal trading partner, although there would be other costs involved in that. Exports would not be hit quite as adversely. Unskilled and skilled labour would also not be hit as adversely. There would be marginal changes to their real incomes. A CETA-style agreement would be important for the Welsh economy.

Q403 **Geraint Davies:** My understanding is that across the UK, 80% of our trade is services and 20% is goods. The goods are affected primarily by the customs union, and the services are affected by the single market. If we are not in the single market, we face all sorts of barriers in terms of controls and standards, and all this. But you are saying that the economy would only go down by 0.5%.

Professor Perdikis: Yes. What we are saying is that with the CETA arrangement, at least you are getting in tariff-free. You will still have to meet the other costs that are involved in trying to get into the single market—the regulations that you will have to meet, and all the rest of it. You have to bear those, but at least a CETA-style agreement means the goods are getting in freely.

Q404 **Geraint Davies:** On the barriers to trade in the single market, do you envisage massive delays—particularly on perishable goods in both directions, and on any technical goods that need their standards checked all the time—basically undermining trade and, therefore, undermining our economy?

Professor Perdikis: Certainly, for perishable goods, there could be a big problem there if there were hold-ups at borders. Hopefully, there would not be, but that would depend on the customs arrangements that were concluded.

Q405 **Chair:** Just on that point, I think that in section 3 of your report you have posited that in a no deal scenario, real GDP would be 0.6% lower in Wales—if I have that correct—by 2027-28.

Professor Perdikis: What page are you on?

Chair: I am on page 10, although I have noticed that mine often come out with different page numbers. It is section 3.1.1 on real GDP. This is the report that I am on. Is it the right one?

Professor Perdikis: Yes. You have the draft copy—there is a draft, and then there is another one—but we can work with that.

Chair: Is this one okay? Is it accurate, this report?

Professor Perdikis: Yes.

Chair: I am on page 10, and the percentage change is 0.6% lower for Wales by 2027-28.

Professor Perdikis: Yes.

Q406 **Chair:** How much higher would GDP be in 2027-28?

Professor Perdikis: I don’t know, but it is that percentage below what it might have been on the IMF, for instance.

Q407 **Chair:** But you expect GDP overall to be higher in 2027-28.

Professor Perdikis: It would be below the projection that the IMF did, and I think that is probably correct.

Q408 **Chair:** So you are basing your figure on an IMF projection, with Brexit being lower than what the IMF projects.

Professor Perdikis: The IMF did not predict Brexit. What we are using is—

Chair: Yes, I have got you. You are using the IMF headline figure. You are saying that is what the IMF says it will be.

Professor Perdikis: Yes, and we are below that.

Q409 **Chair:** It will be 0.5% below that. So your figure depends on the IMF being accurate.

Professor Perdikis: Yes.

Chair: They were not accurate about the vote and the impact of the vote, were they? No, that is fine. I will now ask my question; the Chairman gets his turn, as well as doing a supplementary. Coincidentally, in the same section of that report, which I have in front of me, you have said, "Real wages of skilled and unskilled labour are expected to be lower by between 2.5% and 3% than would otherwise be the case."

Professor Perdikis: Yes.

Q410 **Chair:** Did you take account of the fact that if we are outside and we have a no deal scenario, and free movement ends, potentially there would be a lot less people coming into the country?

Professor Perdikis: No, we didn't. It would have been too complex for us to have done that.

Q411 **Chair:** Your prediction that unskilled labourers would be earning 2.5% to 3% less is based on a scenario where Britain pulls out of the single market but allows people to move in freely at a rate of 300,000 a year from the rest of the EU.

Professor Perdikis: Yes. The IMF projection assumed that the population was increasing over time.

Q412 **Chair:** Presumably, as an economist, you would accept that to some extent unskilled labourers' wages are affected by the number of people in the economy willing to do unskilled work?

Professor Perdikis: Yes.

Chair: So it is reasonable for me to suggest to you that if the UK cut the number of people that were able to come in and potentially take unskilled jobs, unskilled labourers' wages would rise?

Professor Perdikis: I would think that would probably be correct.

Q413 **Chair:** Given that your prediction is based on us being out of the single market and not having had any deal, could I put it to you that it is very unlikely that the Government, in that scenario, are going to allow in anyone who still wants to come in from Eastern Europe?

Professor Perdikis: You know better than I do what the Government might do.

Q414 **Chair:** But it is a reasonable assumption, isn't it?

Professor Perdikis: It is an assumption that you could make, yes.

Q415 **Chair:** Your assumption is based on the idea that the Government will continue to allow in freely anyone who wants to to move to the UK.

Professor Perdikis: Yes. Our assumption, or the IMF's assumption on which we based our—

Q416 **Chair:** Whose assumption do you think is more likely, mine or yours?

Professor Perdikis: Given the way the population is going and the age group, I would think there would still be some sort of immigration.

Q417 **Chair:** Yes. But you are assuming that immigration will continue at the same rate without any restriction.

Professor Perdikis: I think we could probably agree that you might be correct on that one.

Chair: All right. Thank you. In that case I am back to Susan again, unless, Liz, you want a supplementary on that.

Q418 **Liz Saville Roberts:** I do have a question, and if I could ask it now I would be very grateful. Right at the end of your report, on page 35 in the conclusions, to go back to the point that Susan and I raised earlier on—I am going to quote from this, because it is easier than me having to think and speak at the same time. You wrote: "Some researchers have advocated that the UK should adopt a unilateral free-trade policy and remove domestic regulations to achieve those lower costs. We have not attempted to review this policy proposal in the context of Wales in this report, but respectfully suggest that this might be an avenue to pursue in order to clarify such a policy's impact on Wales". That actually captures what I was trying to say, very untidily, before. The obvious question is: how would such a review be undertaken?

Professor Perdikis: As I said, I wanted that to be done for Wales. Had I been at the last meeting—I am afraid I could not attend it—one of the questions I would have asked Patrick outside was what he had done looking at Wales in this context. I am not sure if he has done anything on that, and I will probably have to contact him. Certainly, the Assembly would like a little bit more work done in that area to see the context for Wales.

Q419 **Liz Saville Roberts:** Do the Assembly intend to do a piece of work on this sort of scenario?

Professor Perdikis: They have not agreed to it yet. They were just saying yesterday that that might well be something they need to look at as well.

Liz Saville Roberts: It does feel as though Wales, as a low wage economy—

Professor Perdikis: Yes.

Q420 **Susan Elan Jones:** Professor, what assumptions have economists made in coming up with the various estimates that have been discussed? To what extent have estimates taken into account the UK Government's intention to agree a comprehensive free trade agreement with the EU and a new free trade agreement with non-EU nations? I appreciate that some of that, at least, is speculative, but I would be grateful if you could comment on it.

Professor Perdikis: We wanted to look at a few other things, but we were limited in the time we had to do this. One of the things we would like to have done was this thing that you mentioned. We would have liked to take it a bit further, which we felt was perhaps essential. It really did not come out of the woodwork until we were doing the work, and then you think, "Hang on a minute, we need to look at this as well." We would like to look at one other thing. If there were agreements with, say, the United States, and if there were agreements with other countries, what implications would they have for Wales and the Welsh economy in particular?

So, yes, we would want to do that. I don't think there has been any work done, so far as Wales is concerned, on those issues. I think people have done some bits of work around that, but not to that depth.

Q421 **Susan Elan Jones:** Let us go on to the wonderful hypothetical of what would happen if there was an agreement with the USA. As I say this now, I believe Secretary Tillerson has just been fired.

Professor Perdikis: I heard that at lunchtime, yes.

Susan Elan Jones: The one thing we do have to give to President Trump is that there seems to be a certain amount of variety in what happens on a day-to-day basis. In terms of agreements with America at the moment, there is a risk in all of this, isn't there?

Professor Perdikis: There is a very big risk. If you were to ask me how I felt about trading at WTO rules with the rest of the world at this moment, I would be very worried. I am very much in favour, as most economists are in the free trade world, of our little bubble. It certainly leads to maximisation of welfare. I do feel for it, because I think at this time we are seeing two very strange things happening. Put it this way: at the moment, Trump is not appointing American judges to the Dispute Settlement Body. Unless an American judge is there, it is going to be very difficult to adjudicate on any issues where American interests are involved. That is undermining the multilateral trading system.

Since about the 1980s, we have been moving more and more towards bilateral trade agreements, for very good reasons, but even those bilateral agreements are underpinned by a multilateral system. That multilateral system now is beginning to be undermined.

There was an economist—he is no longer with us, unfortunately—called Alan Rugman, who said in the 1970s and early 1980s that the world economy was coming into three basic blocs. One was North America, another was Europe and the other one was the Far East, which was dominated then by Japan and is now dominated by China. Multinational companies were making strategic decisions on the basis that you had three major trading areas.

The third one in the Far East was not a free trading area, although the Japanese were ensuring that South East Asia supplied it with various components for its factories and all the rest of it, and it exported. You are seeing that with China now. My big worry for the international trading system is that we are going to break down into these three blocs unless somebody can actually support the multilateral trading system.

For the UK, leaving the EU is a decision that has been made, but I would prefer the UK to be a member of some economic bloc or free trade area so that it has an outlet for its products. If we are outside and trading on WTO rules and nobody is obeying those rules, that worries me.

Q422 **Chris Davies:** Following on, Professor, from what you were just saying—your title here in the report is Professor of International Business—we are leaving the EU. There is no question about that now. Given your last answer, do you think it will be impossible to get international trade deals with other major countries around the rest of the world?

Professor Perdikis: No, I don't think so. It is possible, but if countries are closing up and entering into alliances—let's just say that the United States is not going to be the best partner. The Canadians are beginning to worry about that and Mexicans are certainly worried about it. We are not sure what is going to happen there, but, as we know, the United States is a very large economy in the world. It has always had political influence on the multilateral system. It has supported it, although, as I said before, it moved more towards bilateral trade agreements in the 1980s.

Certainly, if countries are getting into blocs, unless you are part of a bloc it is going to be very difficult to penetrate that. It depends on your economic power. We are not talking about a nation that does not have economic power. No; we are the eighth largest economy in the world and all this sort of stuff, so we have economic power, and we have a hinterland with the Commonwealth and all the rest of it. But we have to be very careful as to who we have agreements with and how deep those agreements are. In one sense, the deeper the better, in that you are going to be locked into somewhere where your firms will be able to have an outlet for their products.

Chris Davies: Chairman, we have covered most of these questions. Am I allowed a little bit of flexibility to go off-piste?

Chair: A little.

Q423 **Chris Davies:** This is something I have not had the opportunity to put to people sitting in your position—on camera and giving evidence—so could we slightly reverse the role, Chair? With your academic experience, how attractive is the EU going to be for outside countries in five years' time, as a place to invest and a place to do business, when one of the major economies of the world is no longer propping the EU up?

Professor Perdikis: I should imagine it would still be attractive. A lot depends on the political situation, what happens to Europe and how Europe goes.

Q424 **Chris Davies:** Would you accept that things are changing rapidly right across Europe, from what we are seeing?

Professor Perdikis: There is probably a change taking place, political—

Chris Davies: Probably? You do not have to be an economist or an analyst to understand when things are changing across Europe.

Professor Perdikis: Indeed not. Things are changing, but the implications for the makeup of that economy might well change as well. Let's assume—again, an assumption an economist will make—that the only change is that the UK leaves. You still have a very large economy there—a single market—that you will want to enter and penetrate, and continue selling your products in. It is not going to collapse tomorrow, is it? I hope not, for our sake. I should imagine that if you are an American company, a Japanese company or an Indian company, you would still want to sell to the Germans, the Italians, the French, the Spanish and all the rest of it. It is a big economy. Why are the Chinese trying to put in their belt and road policy, and build their rail lines and their ports in various Southern Mediterranean countries, in order to get into the European market? I think they see it as having some sort of future.

Q425 **Chris Davies:** Many of your academic colleagues believe that it will only be bad for Britain and it will not be bad for the EU. Would you not agree that it would be bad for both if we decided not to be sensible?

Professor Perdikis: I think it is. Some of our figures show that, but it is dependent on size, isn't it? It is not going to be quite as bad for the EU as it might be for us unless we have some sort of agreement. I think it is not a good thing for Europe.

Q426 **Susan Elan Jones:** In terms of changes in the EU, is it fair to say that the EU, over time, has had quite a lot of changes to it? Whether that was Britain coming into it in the 1970s or whether much, much later it was the accession of the Eastern European countries, change is something that it has handled reasonably well in its own way, isn't it?

Professor Perdikis: It has done, but it has been additions to rather than subtractions from. Talking to colleagues at European conferences and stuff like that, they all think that it will have an adverse impact on the attractiveness of the EU to others. That comes back to your question about whether it will impact on multinationals making their strategic decisions as to where to set up and who to sell to.

Q427 **Liz Saville Roberts:** I am going to be good and go back to the script for a bit. Question 7, which we had prepared for us, looks at your estimates and what action the UK Government could take to mitigate any adverse consequences that might arise from Brexit, particularly for Wales. But I would like to ask you about the concept of the Shared Prosperity Fund.

Professor Perdikis: I don't know much about that.

Liz Saville Roberts: It is to replace European structural funds. We might be discussing what the shape of this would be, in an ideal world or in ideal scenarios.

Professor Perdikis: I would not want to go down that road.

Liz Saville Roberts: Why?

Professor Perdikis: I don't know enough about it, and I would not want to mislead you.

Q428 **Liz Saville Roberts:** Would it be fair to ask you this? We are where we are, and we are on the Welsh Affairs Committee. We should be able to say more about the Shared Prosperity Fund than just its name.

Professor Perdikis: My simple answer to that would be yes.

Q429 **Chair:** This relates to your position as a bit of an expert on trade. Are there goods that we could drop tariffs on, if we go to a WTO scenario, which could be done without hitting any British industry? For example, what about roast coffee? I hear that carries quite a high tariff these days, although there seems to be some argument about it. I am told, although I am sure others would dispute it, that that is because the EU have an industry in Belgium and the Netherlands processing coffee, and so they keep the tariffs high. Are there examples like that of goods that we could drop tariffs on without any cost to UK industry?

Professor Perdikis: I don't have the detail, otherwise I could answer that. You mention coffee, and coffee certainly came to mind as one. Outside, there might well be opportunities to change certain policies towards developing countries, and stuff like that. If we did have our own GSP, we could probably go down that route. Having said that, the EU's GSP certainly lets most things in tariff-free anyway, but it is the processing of these things that might be more important.

Chair: If it is letting most things in tariff-free, it is probably not going to affect us that much if we go our own separate way, is it?

Professor Perdikis: Not in those areas, no.

Q430 **Chris Davies:** Just following on from that, is there any reason why we should not be importing and then roasting coffee beans in Aberystwyth?

Professor Perdikis: The transport costs.

Q431 **Chris Davies:** Surely, outside of the EU there is an opportunity for us to do that?

Professor Perdikis: I am sure there is an opportunity to do it now in the EU. It is just that we don't do it. We have not developed those sorts of skills, although down in Cardiff there used to be—I am getting anecdotal; you must forgive me—a coffee roasting place called the Costa Rica near the Wyndham Arcade. They used to import coffee beans there and roast them. There were times when, if you walked down St Mary Street in Cardiff, you got the waft from the Brains Brewery and the one from the Costa Rica coffee. I know which one I preferred.

Q432 **Chris Davies:** So there are opportunities outside of the EU. Ms Saville Roberts asked what the UK Government can do to mitigate any adverse consequences on Brexit. What more could the Welsh Assembly do to help?

Professor Perdikis: I don't think they can do very much, can they?

Chris Davies: You think that apart from blaming the Westminster Government, they cannot do anything themselves.

Professor Perdikis: Well, I haven't asked them.

Chair: That is a fair answer. I feel we are coming to a close. You have given us over an hour of your time, and we are grateful. I want to end on that lovely note about beer and coffee wafting around. I would happily settle for both. Thank you for plugging those businesses; I am sure they both deserve it. Thank you very much indeed, Professor.