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International Trade Committee

Oral evidence: Trade and the Commonwealth: developing countries, HC 667ii

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Watch the meeting

Members present: Angus Brendan MacNeil (Chair); Mr Marcus Fysh; Mr Ranil Jayawardena; Mr Chris Leslie; Julia Lopez; Catherine West; Matt Western.

Questions 91 - 163

Witnesses

I: Aleyne Johnson, Head of Government Relations and Citizenship, Samsung, and Giles Derrington, Head of Policy: Brexit, International and Politics, techUK.

Written evidence from witnesses:

Samsung Electronics UK

Examination of witnesses

Witnesses: Aleyne Johnson and Giles Derrington.

Q91 **Chair:** Thank you both for coming this morning. I think we know some of you already, but regardless, please state your name, rank and serial number for the record, starting on my right.

Aleyne Johnson: Good morning. My name is Aleyne Johnson. I am the head of government relations for Samsung Electronics UK.

Giles Derrington: I am Giles Derrington. I am head of policy for Brexit, international and economics at techUK, the trade body for the tech industry.

Q92 **Chair:** Samsung, can you talk us through the production of your smartphones—one of which I have in my pocket, of course, like many other people—from the sourcing of various materials and components through to manufacture and then to a UK consumer buying it on the high street?

Aleyne Johnson: Yes, I am very happy to. Just before I begin, I want to stress that we are not here as trade experts; we are here as a consumer company that hopefully will be able to explain the process to you of how something does, as you say, get to the high streets.

Chair: In fairness, we are all trade experts in the UK—we are on an acceleration curve at the moment.

Aleyne Johnson: I am sure we all are. The briefest summary I can give—and I will then go on to set out the steps in a little bit more detail—is that one of our smartphones would be designed with extensive R&D, primarily in Korea. It would then be assembled and manufactured in Vietnam and then shipped from Vietnam to the UK. Obviously there is slightly more depth than that. A good starting point—and if you have further questions, I will come back to them— is this: when the phone is designed, assembled and in its finished state, the first action in terms of trade would be for Samsung Electronics Vietnam to request a freight forwarder to book a shipment.

What that means in practice is that a company will arrange all the international shipping documents, all the export customs declarations and then the phone can be transferred from a factory to the carrier. The carrier then provides all the security and customs declarations for HMRC. At that point the phone is able to leave the country of its manufacture—in this case, Vietnam. It then travels from Vietnam all the way to the UK, it lands on British soil and HMRC will assess any import VAT or customs duty associated with whatever the product is.

Once that is agreed by HMRC, the product then enters what we call free circulation, where we are able to take it either to our storage facility or to that of our customer. When I talk about the customer in this sense, I mean one of the big retailers, such as Vodafone, EE, O2, Dixons Carphone—those sorts of companies. The next part of its journey—I appreciate that it is a long journey for this phone—is then to get to their warehousing and then to their shop and then someone can walk into the high street shop and buy it and start using it. That is, in essence, the process. If it is helpful to the Committee, I am very happy to send you that information.

There are a number of trade aspects that come into that and a number of agreements that come into that. Probably what is different with this particular product that we are talking about, compared with some other products that big companies operating in the UK may have, is that speed is very important for us. You may have seen from advertising that we launch new phones and it is very important that we can get the phone to the market relatively close to the launch date so that it is there on the day the shops open. Of course, generally with big mobile phone launches, that product might be launched around the world on the same day. Again, the phone will have been developed in great secrecy, so that timing and the speed with which we can get it from its manufacture to the UK is a very important aspect for us.

Q93 **Chair:** Just out of interest, how many phones does Samsung make in Vietnam and how many of those phones come to the UK market?

Aleyne Johnson: I cannot give you the exact figure for how many come to the UK market, because we think that is commercially sensitive. We do give that information to HMRC, because they have all the import records. What I would say is that all of the phones that we make that go on sale in the UK are made in Vietnam and Vietnam itself constitutes around 50% of our global output for all the markets around the world. I will not give you a precise figure, if you do not mind, but we are talking about many millions of handsets, so it is obviously a key part for us.

Q94 **Chair:** Why Vietnam?

Aleyne Johnson: We have been there in a major sense for a number of years now. I think it was 2009 that we opened our first major factory and we have developed that further in recent years. These are very major developments costing billions of pounds. We chose Vietnam in the same way that we choose other locations around the world where we manufacture. We have a number of criteria, so the country has to have sufficiently good infrastructure for us to be able to get the components to it and get the finished product out of it very quickly, so that infrastructure is important. Its geographical location is important, because we tend to have the manufacturing facilities close to where its supply chain is. I can talk a bit more about the supply chain if you would like me to.

The geographical location is an aspect. There could be investment incentives. We would need to have a sufficiently large workforce that is well skilled, because we are dealing with high tech and various other facts. It is a range. Vietnam is very important to us for smart manufacture. We make products in the developing world, but also in the developed world. We have manufacturing within the EU and in the US. All those factors come into play and then we make a decision on that, taking a sort of global map into account.

Chair: It is quite interesting that such a big global capital company is in the socialist Republic of Vietnam, of all places. It is maybe jarring in some people's minds. Matt Western.

Matt Western: If you want to ask question 2, perhaps I will come in there.

Q95 **Chair:** To techUK, is the level of complexity in Samsung's supply chain typical of the industry?

Giles Derrington: Certainly for large electronics companies, absolutely. If you look at the average laptop, which has over 2,500 components in it, all of those are part of the supply chain somewhere, if you go down below the first-tier suppliers, mines up through smelters, up through manufacturers. If you take a company such as Apple, they have publicly published their supply chain. I think it is in about 25 countries, four of which would probably qualify under the GSP regime. Obviously the majority of their work is in either China or the US, but it is also distributed right across the EU.

It is also worth saying that electronics includes not just hardware, but software. Software companies will have similar supply chains with different parts of products being put in. Ultimately, a lot of that ends up in the phone handset or a laptop as well, so they all intermingle very much.

Q96 **Chair:** In sourcing some of the materials and components, I believe there are quite rare metals often in mobile phones. What is the background?

Giles Derrington: Obviously there are a number of electronic components and minerals that go into tech products. The three TGs of tin and gold, tungsten and tantalum, those have to be sourced ethically. The US started a process with the Dodd-Frank Act of creating a non-conflict minerals regime. Their regime was quite severe, in that effectively what it did was push people out of the Democratic Republic of Congo, so rather than trying to solve the problems of money going to the wrong places, they just end up getting companies to withdraw.

UK and EU tech companies have been doing more work on this. There is an EU conflict minerals regulation that is due to come in on 1 January 2021, so the day after the end of the transition period, which is a substantive improvement, we think, on where the US has been with Dodd-Frank. That is very much about how the supply chain is sourced. It is important: often it is talked about in terms of conflict minerals. We talk about sustainable resourcing, simply because it is not just conflict, because there are environmental pressures, modern slavery and those kinds of issues as well. It is not just where wars are fought; it is where you are potentially doing harm in a market that companies do not want to be involved in and want to make sure that they know where things are. The key with all this is making sure that audits are at the smelter level, because the challenge with a lot of minerals is you can track it from the mine to the smelter, but after the smelter it is impossible to know which individual mines contributed to that particular material. That is where a lot of the work is going on. That is why the EU regulation has white lists for smelters and those kind of things, so there are proper audits.

Q97 **Chair:** Is it typical in the sector for your members to have manufacturing facilities in developing countries such as Vietnam?

Giles Derrington: It is quite typical. It is not universal by any stretch of the imagination, but there are certain key countries where they have good tech backgrounds and Vietnam has a very strong prime tech sector in its own right, so it becomes an interesting country to put a product.

Q98 **Chair:** It becomes a hub in itself?

Giles Derrington: Yes. Put it this way, I think Vietnam has created 800 tech start-ups in the last 14 months, which is not bad going, even by UK standards. A lot of that is from the ecosystem that has developed there around a couple of big centres, which allowed them to go in. The challenges when looking at developing countries fundamentally are trying to understand which countries have the right regimes in place in terms of things like IP protection and those kinds of issues, as much as they are where there is the potential to build a factory, to invest in the market. You need the other things as well to make sure you can be confident. I think Vietnam is a good example of somewhere where the Government have done quite a lot of work to make sure that they are meeting global standards in those areas, so the companies feel confident going and trading with them.

Q99 **Chair:** Just a final question from me at the moment to Samsung. We know that your R&D takes place in Korea, and we know that there will be materials sourced globally in various countries. I am trying maybe to pre-empt the EU directive on conflict minerals that is coming in, but of the components that are in the machines—chips and what have you—are they all made in Vietnam? Are all the components that you have in your finished Samsung phone Vietnamese-made or are you taking components into Vietnam?

Aleyne Johnson: For the majority of components, the suppliers are from within Vietnam. That rate is increasing every year—I think as recently as 2014 it was about 37% and now it is well over half. A lot of the components for one of our phones come from Korea, which is our home country, and we have big facilities there, and semi-conductors and components are a big part of that.

Q100 **Matt Western:** I draw attention to my declaration in the register of members' interests.

I am just interested: when you were talking about the parallel of Apple and you were saying about how much is brought in from other countries, I think you were saying that they quote 25 countries. As the Chair was asking about your move at Samsung to make more and more within the assembly country, how do you establish, when people talk about rules of origin, what value to attribute to intellectual property and say the design value or the brand value in the product versus the manufacture?

Aleyne Johnson: The design value and the R&D is arguably one of the greatest parts of the process. Yes, that will primarily be carried out within Korea. We do have a growing R&D arm within Vietnam itself, as well as R&D functions here. In terms of rules of origin, it is a slightly different situation for a smartphone compared with some other products. Under the WTO Information Technology Agreement, which is probably one of the most—if not the most—important agreements that is relevant to our market, rules of origin do not come into play certainly in any way like the same way it would do for other products.

If a country is involved in the manufacture of a smartphone or an IT product, there are not the rules of origin obligations that you might have for something else and certainly that customs authorities would need. That agreement does cover the vast majority of what we would think of as IT and tech products—it does not cover all of them, but it covers the vast majority—so rules of origin are less of an issue in that compared with, say, other consumer products.

Q101 **Mr Marcus Fysh:** How do you promote sustainable development in your supply chain?

Aleyne Johnson: This is obviously an area that we at Samsung—and I am sure techUK will be able to talk about it as well—take very seriously. We support the UN Sustainable Development Goals and various policies that we have on a global level. We have a global procurement code of conduct and we have a global supply code of conduct. They are developed to ensure that we are abiding by all the relevant international standards. That can cover all sorts of things, from human rights management to ethics, work environment—all those sorts of things—so that organisations within our supply chain are compliant with those.

We have a department whose sole function is to work with suppliers to ensure that they are, first, trained and educated so that they understand these standards and that they comply with them. It is clearly a very important thing and something we take very seriously. In Vietnam itself we do a lot of work in this area to ensure that we, as a major employer and a major investor, are operating in a sustainable manner.

Q102 **Mr Marcus Fysh:** Are there particular skills development programmes that you help to work on in Vietnam, for example?

Aleyne Johnson: Yes, we do. We do that in two ways. We do that obviously for our employees, because we are dealing in a high tech field, so we need to ensure that they have the right skills to be able to do that.

One part of the work is focused primarily on our employees, but we also do other work as well, which I think is probably more on the sustainable issue you are talking about. For instance, we have developed schools in Vietnam where the ambition is that the next generation of young Vietnamese people have very highly advanced tech skills, which means they are going to be a greater benefit within the workforce there. That is a programme going across Vietnam, obviously primarily focused near the areas we are most interested in.

We also do other things that are perhaps slightly less focused on training but that we think are examples of operating in a sustainable way. We supply water to schools in Vietnam that might be at risk of climate change issues and we do various other programmes like that. The training is both for our employee base, but also more widely for the community there so that the next generation are able to be very good employees and contribute.

Q103 **Mr Marcus Fysh:** When it comes to the TPP, which is the regional trade agreement that has just been agreed, are you anticipating that you will have to do more on that front as a result, or is that stuff that you are already doing?

Aleyne Johnson: Speaking as Samsung Electronics UK, we would not have a direct involvement in TPP or an agreement of that sort, assuming the UK is not a member of it. I am afraid I do not know exactly how that would operate.

Q104 **Mr Marcus Fysh:** Are there any other ways that any of your other members are trying to improve the sustainability of their businesses and where they operate?

Giles Derrington: Absolutely. I think the tech industry has led the way in some of this stuff. For example, there was a group called the Electronic Industry Citizenship Coalition, which has now morphed into something called the Responsible Business Alliance. That started from the tech industry wanting to make sure that they were complying, they were meeting global standards, but also going further than global standards, operating in a sustainable way. That involves a code of conduct, which includes everything from environmental sustainability through to trafficking and slavery prevention through to conflict minerals, so those kinds of issues as well. That is something that techUK and our members have been strongly supportive of.

Underpinning the new EU regulation, there is a group called the European Partnership for Responsible Minerals, which has been set up basically to help facilitate that EU regulation. That is doing a lot of work to help the small businesses to be able to understand how their supply chain works, because for bigger companies it is easier to do audits, to do those kinds of things. The other thing I would say is that tech also sees very much a role in helping support sustainability more generally, if you look at things such as blockchain being used to tackle corruption, because it is easier then to identify missed payments, payments going missing, and if you look at things like AI being used to prevent human trafficking. I think recently Intel won the Thomson Reuters award for preventing modern slavery, because they were doing some work in America, which effectively helped them crunch data in a way that meant you could identify a missing child in two days rather than 30 days. Those things work as well. There is a lot of work that the sector is doing.

The final thing I would say is that some companies are now also moving towards looking at how sustainability within the supply chain works. Apple has said that it has a long-term goal of four cyclical supply chains, so that all the minerals used in its phones ultimately come from recycling handsets or other recycled tech products so that you are not going back into mines, and that helps keep minerals in the ground.

Q105 **Julia Lopez:** I am just curious to know whether that approach is shared by the big Chinese telecoms firms. If it isn't, does that put you at a competitive disadvantage in this area?

Giles Derrington: I think the biggest Chinese exporting firms, the ones that we do business with, understand the importance of sustainability. I do not think we see it as a competitive disadvantage in any way. Trust and ethics are kind of part of the business offering of companies and they want that to be part of the business offering. Also, in a purely blunt way, if those kinds of things are happening, then that is corruption and that leads to things that are not good for business anyway. I think there is a very clear sense that leading the way and being very progressive on these issues is worthwhile for businesses, both from a consumer standpoint and from a bottom line standpoint.

Aleyne Johnson: Just to add to that, we are not a Chinese company, so I cannot comment specifically on China, but we are still a very new industry and one that is constantly innovating. In five years' time there might be a product available that no one has yet thought of. We do want to take these things very seriously and want to set a high standard. I think some areas of the tech industry are setting a very high standard across industry, so we do try, wherever possible, to show some leadership in that.

Giles Derrington: If I may, Chair, that is a very important point. One of the things we talked about with conflict minerals is that they also go into other products—automotive and aerospace—and one of the things that the Responsible Business Alliance has been doing, one of the reasons it has been branded, was to bring in other sectors and go, "Look, this is something that we have been grappling with in the tech industry. We want to share that best practice in how you prevent conflict minerals ending up in your supply chain."

Q106 **Julia Lopez:** Do you think the Chinese take the same approach on the conflict minerals issue?

Giles Derrington: I cannot speak for all Chinese companies, obviously. As I say, I think the larger ones do, and certainly those that I have experience with do, because they understand that they are dealing with western markets and there are important rules there. Also, there are OECD practices as well, so there is a global recognition of some of this stuff. It is not just a purely European or purely Western approach.

Q107 **Matt Western:** Just to go a little bit further about the sustainability development side, in EU trade agreements we have the sustainable development chapters. Do you support those that cover the environmental legislation, but also labour rights? I have this sense that Samsung is a fairly paternalistic organisation. Do they welcome and do they support unions and labour rights?

Aleyne Johnson: We do recognise totally employees' rights to freedom of association and to form unions and so on. In terms of the EU agreements, yes, there is currently an EU-Vietnam trade agreement that has been negotiated. That has various parts in it. I suppose from our perspective, it is a state-of-the-art free trade agreement, because it is literally brand new and is perhaps wider and takes into account more things than some trade agreements in the past, and perhaps it sets the direction for the future. Yes, we approve of broad trade agreements that take various factors into account, and we support the EU one.

Giles Derrington: Broadly speaking, we support the sustainability chapters. We think they are a sensible thing. We think if you are going to promote global business, it has to be promoted in a sustainable way.

More widely, I think the tech industry is very supportive of things such as the Modern Slavery Act in the UK and the UK leading the way. TechUK has been working quite a lot with our member companies in helping them export some of the best practice modern slavery statements out to other industries and other companies around the world. We are very supportive of the private Member's Bill introduced by Baroness Young of Hornsey, which is quite far down the list in the Lords, but would help strengthen some of the modern slavery practices in supply chains. In general, the industry understands that labour laws are something that again is valuable because you are working with often quite high-tech products and if you support in-market development, you end up with innovation coming from that market as well.

I was speaking to Harvey Nash, a recruitment company but also a tech company, and it went into Vietnam in 2000 with 12 engineers, I think. They were very much that innovation coming from the UK and the source code was produced in Vietnam. Now their industry has developed there in a way that is helping innovate and that is helping them to get to other markets as well. For example, because they are establishing and innovating in Vietnam, they are able to go and do work and win contracts in Japan and other places in the same geographical regions, so there is a value there in promoting decent training, decent education, working with the universities, working with the education sector in-country to make sure that you are promoting a long-term view of the company. It is not valuable, considering the capital cost, for companies to go in, use human resource and then pull out of that country. That doesn't work financially either, let alone morally.

Q108 **Matt Western:** The work practices of Foxconn got a lot of publicity a few years ago. Is it the case that they no longer happen?

Giles Derrington: I cannot speak across all of the supply chain, but I know that companies have faced this stuff in the past and have done quite a lot of work to try to stamp it out. There is an awful lot of work. If you look at some of the work that Apple has been doing, for example, in training employees, improving standards, auditing their supply chain very heavily, I think they audit about 97% of their entire supply chain now in the last year alone. With that kind of work, I think they understand the impact of those kinds of practices and want them stamped out. Obviously it takes time to do these things, but there is a desire to do so.

Q109 **Chair:** Employees and working conditions have been mentioned. What would the average salary be for an employee of Samsung in Vietnam and what has been the trend over the last number of years in regard to that salary?

Aleyne Johnson: I do not know the exact figure of the average salary, but I know that we pay well above the minimum wage in Vietnam and that those—

Q110 **Chair:** Could you write to the Committee with those details?

Aleyne Johnson: Yes, I will happily find out. Across the world in production sites, we will review the salaries of employees annually and that will take into account a number of factors. It could be inflation in that country or perhaps even a rise in the legal minimum wage, so those sorts of things are reviewed annually.

Q111 **Chair:** When it comes to the working week and annual leave, how does a Samsung employee in Vietnam's working week and annual leave compare to the working week and annual leave of a Samsung employee like yourself here in the UK?

Aleyne Johnson: I am entitled to annual leave here and I do try to take it. We will abide by whatever the relevant rules are around things like working hours, overtime, holidays et cetera. I am very happy to write to you with specific details on how that may work in Vietnam, but it is certainly the case that there are rules in place that set out, as I said, working hours and those sorts of things.

Q112 **Chair:** Just a final point from me at the moment. How many jobs are there in Vietnam? We were talking about developing countries here and obviously companies such as Samsung coming into Vietnam have played a role in that development, of Vietnam expecting to grow 10% per annum for the next decade or near decade. How many jobs are you putting into that economy?

Aleyne Johnson: That is right. In Vietnam we have over 100,000 employees, so this is obviously a very sizeable investment. That is something that has grown as the popularity of the products and smartphones have grown, as we have invested in developing the factories and the other places of work there.

Q113 **Chair:** When did your footprint start in Vietnam?

Aleyne Johnson: I think the first time that we opened a manufacturing facility was 2009, but that has greatly increased over the last few years. The factories that are there now have been expanded in recent years; it is a growing area.

Q114 **Matt Western:** I think a lot of people have this image of what they perceive to be sweatshops, and I would like to think that Samsung is different. What you are saying is that you do have very stringent labour policies in place and that you would not have, say, 18-hour or 20-hour working days for any individual in your factories and you do not have an issue with suicides or anything like that?

Aleyne Johnson: I do not have specific information on that. What I would say is this: you say there may be a perception of some companies that are major employers in the developing world, and you used the word "sweatshops." That is not something that we recognise, because we manufacture in many, many places across the world and those places are very carefully chosen, because it is a major investment and it has to be a long-term investment. We need to have people who are skilled and motivated to want to be our employees. As I said, with electronics products, it is not just the developing world that has manufacturing; it is the most developed countries as well. I do not think it is necessarily the view that it is always developing countries connected to big companies and those products going to developed countries to be sold.

Giles Derrington: The Responsible Business Alliance code of conduct is worth looking at, because it has a number of bits on workplace practices, which all those who have signed it sign up to. That is obviously very much about respecting in-country law, but it is also about going further and meeting global standards.

Q115 **Chair:** Is there a maximum working day?

Giles Derrington: Off the top of my head, I do not think there is in the code of conduct.

Q116 **Chair:** Or a maximum working week?

Giles Derrington: I think the language is more broad than that, just in terms of the way the code of conduct is written, but understanding the importance of the ability to have work-life balance, all those things are in there, certainly.

Q117 **Mr Jayawardena:** I should first declare for the record that Samsung has a significant operation in my constituency, which I am delighted about. There are lots of good jobs in my constituency.

I wonder whether I can turn to the positive side of the relationship that Samsung has with Vietnam. The Chair used the word "hub" and I think Vietnam is a manufacturing hub in the world. It has signed 10 trade agreements and six more are in the pipeline. How beneficial do you think those trade agreements and preference schemes are to companies such as yours, who are then wanting to export goods to the world, including to Britain?

Aleyne Johnson: These things do have a significant part to play in our operations. The primary one is the one I described earlier, the WTO information technology agreement, because that covers the majority of IT products, but yes, you are right, there are other trade arrangements that also facilitate trade. For instance, the GSP will cover other products that may be manufactured in a country such as Vietnam and then exported from there to the UK market. That means that developing countries are able to export those products and they are without tariff when they arrive. Vietnam has a number of trade agreements, I think primarily with countries in that region of the globe but, yes, it is important to us, because without certain trade agreements we would not necessarily be able to import goods into this country tariff-free.

Q118 **Mr Jayawardena:** Could I then extend that discussion further to the consumer? What are the benefits to the consumer of those agreements? Clearly you were saying that some products might not even end up here, but presumably there is a benefit to the consumer in terms of price, in that the products are made in a lower-cost market and are therefore able to be sold to the consumer at a better price.

Aleyne Johnson: That is right. We obviously want to manufacture things as competitively as we can, because we are in an extremely competitive and price-sensitive market. Those agreements do matter. If tariffs were put on these products, that is obviously going to cause some problems. But it is also the point about the speed of being able to transfer products from one part of the world to a consumer market in another part of the world, and some of these agreements really help facilitate that. I mentioned earlier the importance of trying to get products on to the market in time for a new launch. Being able to do that—to transfer that product in weeks rather than months—does make a meaningful difference, so yes, these agreements do very much help us.

Q119 **Mr Jayawardena:** Vietnam is clearly a significant distance from the United Kingdom, but you can deliver in timescales that do work for your business, clearly.

Aleyne Johnson: Yes, that is right.

Q120 **Mr Jayawardena:** Since trade with developing countries also, I think, should have an aim of developmental aid, how beneficial are these agreements to the people who are looking for work? Clearly people do work for you and have a good job with you, as well as those cheaper goods potentially within the market itself.

Aleyne Johnson: I think that is right. The agreements are helping us to be able to manufacture in those countries, because it therefore makes the trade aspects cheaper by not having tariffs in place. That must have benefit and is obviously a consideration. There are some product lines that are subject to tariffs, and that obviously has an impact and will have an impact on the end consumer in the UK if we cannot avoid those sorts of things.

Q121 **Mr Jayawardena:** My conclusion from what you have said is that the free trade agreements, the GSP provisions, result in lower prices for UK consumers, products being delivered in a timely fashion to our market, at the same time as creating good jobs for people in Vietnam and potentially the rest of the developing world and creating opportunities for that country to upskill, as you have said.

Aleyne Johnson: Yes, I think that is fair, but I would stress that the most important agreement for us at the time being is the WTO one.

Q122 **Mr Jayawardena:** Yes, thank you. Mr Derrington, I wonder if I can turn to you. Following on from what Mr Johnson said, how important do you think—and Mr Fysh referenced it earlier—CPTPP might be for the sector? I hear entirely what Mr Johnson said around WTO, but in terms of CPTPP, the opportunity to create freer trade as a statement of principle in that part of the world, what is your view for the sector here in the UK?

Giles Derrington: First of all, it is worth just reiterating the importance of the ITA on products, because obviously 80% of the tech sector is services, but products is incredibly important, both in delivering those services and as a market in and of its own right. We are very keen for the Government to be very clear in saying that the UK will sign up to the ITA the moment we are able to do so. At the moment I think we are at the point where the Government are supportive of maintaining the same levels of tariffs, but with that expansion of the ITA to new technologies such as VR, those kinds of things, you need to be in the room to help deliver that and we want the Government to be driving that forward.

In terms of CPTPP, we think it is quite a good trade deal prima facie. There are lots of useful things in there. The digital chapter is probably the most advanced at the moment, although I would say there is some hope that the new renegotiated NAFTA chapter might advance that somewhat. The one thing I would say on the services side, however, is that a lot of what trade chapters do are defensive issues. It is, for example, things like requirements against enforced technology transfer, it is against digital tariffs, those kinds of things. Those are valuable and protective, but they do not fundamentally open up markets.

The thing we do think opens up markets and services is the free flow of data. That is obviously something that has to be dealt with separately.

Obviously, as we have discussed before, it is part of the EU adequacy process at the moment and would be part of a UK adequacy process potentially post-Brexit. For us, ultimately a lot of our members say, "If you are going to do trade deals, start with the free flow of data and then you can move on to some of the actual principles." While we think CPTPP is welcome, the delivery of it would be challenging without data flows into the individual countries, at least on the services side.

Q123 **Mr Jayawardena:** That is helpful. Do you think the UK should consider joining CPTPP? As the Government have said, they have left the door open to doing so.

Giles Derrington: It is quite hard to know at the moment, because ultimately what all our members say is that the EU deal has to come first and obviously every trade deal you do impacts on others. Whether in the confines of the EU deal, whatever that looks like, we would then be able to sign up to the same things as CPTPP—it is not entirely clear. Prima facie, there does not look like there would be too much challenge, but it is very hard to know until after that fact.

Q124 **Mr Jayawardena:** If the emerging agreement coming out from the EU is that we will be able to negotiate our own trade deals, because we are leaving the customs union and the single market, then one would have thought that you might have a bit more of a view whether, in principle, it would be a good or a bad thing.

Giles Derrington: As I say, it depends a bit, because signing up to trade deals and signing up to a specific trade deal are obviously different things. If there were potential choices to be made between an EU deal, hypothetically, and—

Q125 **Mr Jayawardena:** But let us say that there are not those choices. In principle, is CPTPP a good or a bad thing for the sector to be part of?

Giles Derrington: We are broadly supporting free trade. We are broadly supportive of it as a trade deal. As I say, there are some further things that could go into the digital chapters. I think we would be interested to see what comes out of the renegotiated NAFTA before we support that.

Q126 **Mr Jayawardena:** This is my last question, Chair—he has been very generous, but then I have been unusually quiet today. Mr Johnson, in terms of your own business, I know from the discussions we have had that you want some certainty on our exit from the European Union. That is received and the Government are trying to provide that certainty. When we get flexibilities, when we get some freedoms, what would be the one improvement that we could make in terms of our trading agenda that would be beneficial to your business, that would benefit consumers in this country?

Aleyne Johnson: As you know, we do have a great interest in ensuring that we can manage our business as effectively as possible. We do not have a particular view on the UK signing up necessarily to a particular agreement or negotiating a particular agreement, because we are focusing really on the practicalities. A lot of the Brexit debate for us is about ensuring certainty. We want to be able to ensure that we can import the products that we need for our consumer market tariff-free. Any risk to that is a problem, so we want to reach a situation where the UK can do that.

In terms of wider benefits, it is difficult to say. I appreciate your question but it is very hypothetical. What we would say, and what we hope the Government wants, is that whatever policy it does develop, it has technology in mind, because we do genuinely feel that we are making a contribution to the UK, and we hope that contribution is going to increase. This is a sector that could be providing lots and lots of jobs for this country in the future, so we just want to make sure that in all sorts of policy, trade policy or beyond, that is not forgotten about.

Q127 **Mr Jayawardena:** You said the practicalities, so take the status quo today, assume that nothing changes, what is the one thing that you would then change from today?

Aleyne Johnson: I think there are policies within the UK that could be done, but there isn't a specific—

Q128 **Mr Jayawardena:** Is there anything that you want to share? Is there one thing that you would like to share with us?

Aleyne Johnson: Whatever the Government can do—and we believe the Government are very encouraging of this—to facilitate research and development in this country. That is an important area for us.

Q129 **Chair:** A broader question to techUK: you mentioned that you are broadly in favour of free trade, and one of the major components of free trade is free movement of people, although I do not hear free traders so much emphasising that part of it. How important is it to you to have technicians moving from country to country? Say for Korea or Vietnam, how freely can people move from wherever to help the company or do you find Government getting in the way?

Giles Derrington: Fundamentally, it is important; that is right. Obviously technology helps do some of this remotely, but fundamentally business is still done face to face, certain collaborations do still require face-to-face meetings and engagement. Inter-company transfer is incredibly important; it is widely used by the sector. If you look at a Commonwealth country such as India, that is an incredibly important part of the way that Indian tech companies operate, not least because you need people going the other way to upskill. If you are doing your innovation in the UK and your product manufacture in Vietnam, you need UK people to be able to go over to Vietnam to help explain.

Q130 **Chair:** It is easy to do?

Giles Derrington: Currently it is easy. It obviously depends around the world. There are certain regimes where it is much easier and that is partly national visa laws, those kinds of things, as well as what the UK can do.

Q131 **Chair:** Which developed countries are difficult?

Giles Derrington: I would not be able to give you a full list, because I have not spoken to members substantially about it.

Chair: Roughly.

Giles Derrington: There are more challenges to getting into China than there are to getting into India, for example. When you speak to member companies, one of the things they really stress is the soft power of movement. With Vietnam, one of our members was raising the issue of the number of Vietnamese students coming to the UK, which has fallen substantially in the last three years, I think from 15,000 to about 12,000. They have been hoovered up by Canada. That, they say, is a long-term problem for them, because having Vietnamese students coming to the UK, studying there, they then go back, they look for British companies, they set up in a way that is Britain-focused and that is helpful. There is a whole ecosystem of development and training that works in tandem there as well. It is not just intercompany; it is also about opening people’s eyes to Britain and the western world.

Q132 **Matt Western:** If there was some Silicon Valley company—mentioning no names—that needed five brilliant analytical software design engineers or whatever, could they come from the UK? Would it be easy for them to relocate to the US to work there?

Giles Derrington: It is possible and it happens a lot. It is slow still.

Q133 **Matt Western:** What are the barriers?

Giles Derrington: The barriers are fundamentally time and paperwork, as with everything.

Q134 **Matt Western:** There is no restriction?

Giles Derrington: There is no fundamental restriction, as far as I am aware, on people going through. Obviously there are salary thresholds and there are green card requirements in-country, but we do move people around like that. Could it be easier? Absolutely. If we were looking at a US free trade agreement, would that be something that would be of value? Almost certainly, but at the moment it does happen. The challenge is for smaller companies that do not have the kinds of HR resources to be able to do the paperwork for people and support them in relocation—all that kind of stuff. That is harder and that is where if you look at something like some of the DIT support around people in-country identifying markets, identifying support, that is the support that is needed as much as any hard business-to-business support.

Q135 **Julia Lopez:** In your experience, have there been particular challenges to investing in Vietnam, both prior to this point and now? Is there more you think the Government could do to support companies such as yours investing in developing countries?

Aleyne Johnson: That is an interesting question, because bear in mind that we are looking at it from a slightly different perspective, because the investment that we make into Vietnam comes from the Republic of Korea, rather than from the UK. We would assume that the UK Government would be encouraging of that. Vietnam is now the 29th biggest market for the UK in terms of imports and I think that is probably something that a lot of people may not be aware of, but it shows that it has some significance to the UK economy. We could not say exactly what the UK Government should do, because we do not have any experience of investing from the UK into Vietnam.

Q136 **Julia Lopez:** You mentioned that you have some manufacturing in the EU. I was wondering which country that is in. Also—Mr Jayawardena referenced this—I was going to ask where your UK operations are, but I would like to know what those operations are. When you are looking to invest in countries, what are the criteria that you look for and how do you think the UK rates in fulfilling them?

Aleyne Johnson: First, on your question about parts of Europe where we manufacture, we manufacture in Poland and Slovakia and they are places where we tend to manufacture TVs and domestic appliances. They supply, to the best of my—

Q137 **Julia Lopez:** For the European market?

Aleyne Johnson: Yes, for the European market, obviously including the UK. Just specifically on that in terms of trade, they are particular product lines that we have some concerns about, because under WTO rules they would be subject to some form of tariff, which is why we obviously want the UK and EU to come to an agreement on that.

In terms of the UK, we employ around 1,000 people in the UK. That is in our relevant management functions, R&D and product testing and various functions like that. We have been in the UK for 30 years and it is a key market for us. The fifth largest market around the world is the UK, so it is a good place to invest and we have a long history of doing so. What makes it good? There are a number of factors. Obviously the UK has lots of things that you would expect in the developed world but I think particularly it has a very energetic tech sector, which is a useful thing for us, and particularly on the R&D side it has a lot of very highly qualified people here. Some of the work we do on an R&D basis may be in association with academic institutions in the UK, which again is something that the UK should be proud of, although often that research is conducted on an EU basis as part of one of the EU research projects, but we have chosen to do that here because of the things that we have here that make it worthwhile.

Q138 **Julia Lopez:** We have also touched upon TPP and there has been some discussion about whether the UK itself might join TPP. I wonder what you think that might bring to tech in general. Perhaps Mr Derrington could answer this, if that was the case, if the UK were to join TPP.

Giles Derrington: Broadly speaking, our members are supportive of free trade agreements more generally. It is hard to quantify at the moment because we have not done that work and obviously it depends on the rest of our market; trade is fundamentally interconnected. The challenges, as I said before, are what does the EU market look like, what is that relationship, therefore what does being part of TPP as well give you? The other thing is also understanding—fundamentally, TPP has not been around long enough to really understand this—the delivery mechanism.

If you look in the telecoms chapter, for example, it is a pretty good chapter, but the barriers to delivering services in-country are often things such as whether you find the partner who allows you to go into the market. It is quite rare for a British company to go into a market purely off its own back, kind of on its own brand; it will often find a partner. It is not entirely clear yet how easy it is to do that in certain countries. Even if the wording is good, it will take some time to really understand the value of the delivery. While we are, broadly speaking, supportive of the text, we could not quantify it at the moment.

Q139 **Julia Lopez:** It is a risky position to take for this Committee, but let us assume that Brexit will happen. What would you want to see in our future trading relationships? What is the best scenario for UK tech in our future relationships?

Giles Derrington: I think fundamentally it goes back to this free flow of data point for the services side of stuff, which is if you can do more free flow data agreements, that is potentially valuable. That opens up markets. At the moment they are relatively limited. I think there are only two with developing countries, Argentina being the biggest one. How that will conflict with our EU adequacy agreement, assuming we get it, is going to be quite important, because you cannot break that one to do more around the world and it is challenging. India has been trying for 10 years to get an adequacy agreement with the EU. These things do take time. There is also some work we can do at international level—the APEC process, for example—in supporting the free flow of data on a global standard setting.

Fundamentally, that would help open up markets. That would be something that we would value. Again, showing true leadership at the WTO in the ITA agreement would be valuable. From the ITA's original inception in 1996 to 2015, when they did their update, there was a big gap and a lot of new products were not included because of that gap. You need countries that are digitally advanced, such as the UK, pushing very hard for that next round, be it in VR technology, certain screens and also the underpinning stuff that supports tech. The challenge with ITA is that it might support the tech product, but it will not support the wiring, which allows you to put it in the ground and deliver the services, how you are doing the wraparound stuff.

Also, there are some who ask whether it is time to be looking at the ITA as wider than just a goods question. Can you start making it into a digital trade agreement at WTO level rather than just a kind of tech product ICT agreement?

Q140 **Julia Lopez:** How about for Samsung? Could the UK become even more attractive to Samsung as a place both to have employees and to sell to consumers? How do you think the UK can improve its relationship with Korea such that that could become even stronger in the future?

Aleyne Johnson: The UK is an attractive place, which is why we are here. We obviously want to maintain lots of the arrangements that we currently have. Now, whether that is by particular trade agreements or policy, it is difficult for us to say, as long as the practicalities still involve us to be able to have a free flow of trade. In terms of relations between the UK and Korea, to the best of my understanding those relationships are good. I think there is a long history of the two countries working well together and I note that often Ministers refer to Korea as a future key trading partner of the UK, which of course we would support.

Giles Derrington: Can I just add one thing as well, which is worth bearing in mind? It is not within trade deals, it doesn't require Brexit, but it is something we are supportive of. The Government's policy on tech hubs is quite valuable, I think. The Israeli tech hub has been a real success. We want them rolled out with other countries and that is a key strategic partnership. It does not require, as I say, an FTA or any agreement to do, but if we are going to fulfil this global Britain agenda, then identifying key markets, putting a tech hub in place, building the relationships between industry there, sharing that kind of information and best practice is incredibly valuable and we strongly support that proposal.

Q141 **Chair:** A small question. Out of your members that invest generally in developing countries, what sort of experience do they have and what criteria do they use doing that? What support from Government would be helpful for that?

Giles Derrington: Obviously it is a massively varied picture, depending on the size of the company, the type of product they produce. There is no one easy answer. I think the key things that people look for are a developing workforce, an educated workforce, particularly as tech products become more complicated. It is not a T-shirt economy type of product; it relies on a country having developed a kind of basic infrastructure, the basic educational infrastructure as well. I also think things like strong IP protection is incredibly important for companies. There is an uncertainty and caution with going into particular countries, particularly if you are a small company, where you do not have the kinds of state-to-state conversations, then there is always a risk of going in, finding your IP has gone, someone is producing it in-country and then you are done. Those are the kinds of things they look for.

Also, there is just general partnership with the Government. If you have Governments that are heavily state-focused, then you end up with questions about information, data going into Government, all those kinds of things, which are challenging in terms of maintaining the compliance with global standards such as GDPR when it comes into force. You have to factor those things into which country you invest in as well.

Q142 **Matt Western:** I want to pick up on the point about Samsung's investment in the UK, because I have to say that I was not aware that you employed so many people in the UK—thank you for that. It is a very striking figure: 1,000 employees in the UK. You were just describing some of the roles that the employees have here, and just to confirm that you have research, R&D, commercial operations. Can you just confirm, where are your European operations for Samsung and if they are in the UK, which I assume they may be, like a lot of Asian major corporates, why have you based yourself in the UK? Are you concerned about the challenges of leaving the EU, given where you are with your operations here?

Aleyne Johnson: You are absolutely right; the operations here cover R&D functions, commercial operations and management. Yes, we do have our European headquarters here in the UK as well. Our European headquarters and our UK headquarters are in the same building, one floor above, which is the building in which I work, which is in Surrey. That has been the case for many years—I think I am right in saying it is since we came to this market. For the past 30 years that has been the situation and that is where we have been.

In answer to your question about Brexit, we have not played a part whatsoever in any of the politics around it, but we have tried to make the Government and the Opposition aware of what we would like to be the outcome of it. That is primarily around things like free trade. I mentioned earlier around the employees. We employ EU nationals. We employ quite a chunk of EU nationals in our R&D function and we are part of European research projects. You are probably aware of the Horizon 2020 project, which we play a very active part in, so we want the UK to continue to be involved in those sorts of activities and that will mean that we are able to carry on doing what we do here, but we are committed to this country.

We will always, from time to time, review operations, as we do in any part of the world, so that we will look at things over time, but we are here and we are very happy to be in the UK. It is a very advanced tech market and, particularly looking at it from a consumer perspective, there is a high proportion of early adopters in the UK consumer market for tech. I think that is a really good thing; it is something we should be very positive about. That is why we have various functions here and, as I said, extensive R&D functions as well as our commercial operations.

Q143 **Matt Western:** Going forward, it may be a little bit odd for you to have your European operations in a country that is no longer part of the EU. Would that not be the case?

Aleyne Johnson: That is a question we have never had to face before. Whether it is odd or not, I would not like to say.

Q144 **Matt Western:** That is fine. I was interested when you said that you have a reasonable number of other EU nationals working in R&D and other functions. Can you just give us a percentage of what that figure would be?

Aleyne Johnson: For R&D—and I am happy to follow up in writing with the exact figures—to the best of my knowledge, it is effectively divided into three thirds of UK nationals, EU nationals and then non-British, non-EU nationals as well. These are people who tend to be very highly skilled. I think often the debate around what happens next with the EU and EU nationals divides people into skilled and unskilled workers. The sorts of people who are doing R&D tend to be very skilled workers—it is almost a separate category in its own right. These might be people who either have very extensive and specific experience in R&D or they have multiple qualifications. What we have said is that we just want to be able to employ people like that in the future so that they can take part in the projects that we currently do.

Q145 **Matt Western:** We were talking about investment protection. How important are such investment protection provisions, including those featuring ISDS—the investor-state dispute settlement—in driving your decisions in developing countries?

Aleyne Johnson: They are absolutely a consideration. As a company, we are investing very large amounts of money to develop facilities in certain countries, so they are definitely a consideration, although I am unable to give you an example of exactly where we have used one in a developing country in the past. I know we have raised disputes on a WTO level in the past, but the examples I have have been in the developed world, within the US, so not in the developing world. But obviously those sorts of things are a consideration.

Giles Derrington: Just to echo the point, companies look at them and understand that they are valuable. Often the biggest one that is used is the cancellation of contract, which is fundamentally just about importing strong contract law into whatever agreement you are doing, which seems kind of fairly standard fare. The WTO process is probably the more important of them at the moment, so if you look at recent examples, there is currently a US/China case going on about enforced technology transfer in China, where effectively if you have partnered with a Chinese company, the claim is that the technology is transferred to that company and then you cannot enforce IP protection against them after the end of that agreement. That is a WTO level dispute and that is what is valuable.

The other side of it is also the in-country work, which goes beyond ISDS. I know of a case from Vietnam where a company was concerned about someone stealing their IP and it was the fact that the country came down quite hard and was able to enforce its own laws, which mattered. Yes, there was an ISDS process as well, but that should be a last port of action; it is a backstop, not a sword, as it were.

Q146 **Matt Western:** Would further investment liberalisation in the UK trade and/or investment agreement with Vietnam be beneficial to Samsung?

Aleyne Johnson: It is very difficult for me to say, because I am coming from a Samsung UK perspective and the investment would not come from the UK; it would come at a global level into Korea. Whether or not the UK Government policy would have an impact on that, I am afraid it is very difficult for me to say.

Giles Derrington: It depends hugely on the text. The one thing you see consistently through trade deals of all sorts is that the text matters. You talk about the ISDS process. Most of those cases are founded on the specific wording of the text. One of the things that we are concerned about is that the way we approach trade deals in the future across the whole gamut of things that make up trade deals is that business engagement. You look at the way the Americans do trade deals and it is very business-engaged, there are councils operating under non-disclosure, so they can view the text and understand what every dot and comma means for that market. That is what will matter in any trade deal we would do with Vietnam or anywhere else, so that is where we want to be. As we begin the process of developing trade deals, that is where we think the UK Government needs to get industry relationships to. Relying on Green Papers and in six weeks, "Come and see where we are," does not really work in an hour-by-hour negotiation of a specific wording.

Q147 **Chair:** Realistically, do you think Samsung will still have its European headquarters in the UK—I see a smile on your face already—post-Brexit?

Aleyne Johnson: Just a smile. That is not something I can answer, I am afraid. That is something that is going to be a decision that is made on a global level, but—

Q148 **Chair:** What would the EU market feel if the headquarters of Samsung Europe was outside the EU?

Aleyne Johnson: I cannot speak on behalf of the European Union as a whole, so I do not feel able to answer that. We have been here for many years and we will constantly review things in the way that we do all our operations around the world.

Chair: Fair enough, thank you. Chris Leslie.

Q149 **Mr Leslie:** What does Samsung UK's operations sell into or trade into the rest of Europe?

Aleyne Johnson: We do not sell manufactured goods from the UK into Europe. The main trading relationship within the EU for us is the production of things such as TVs and domestic appliances in other parts of Europe, which are then brought to the UK and sold to consumers here.

Q150 **Mr Leslie:** You do not have any concerns about the divergence of regulations or the loss of the frictionless trading arrangements between the UK and the EU?

Aleyne Johnson: We have been given no reason to be concerned, but it is an area of concern: it is ensuring that post-Brexit we have identical product standards for our products in the UK and in the EU, because we are obviously developing these things, looking beyond one country, and it would cause problems if there was a situation where you were having to create a particular technology product for the UK market that was different from those for the rest of the world.

Q151 **Mr Leslie:** Or on data, I presume. If there was a data differentiation in policy for the UK than for the rest of the EU, would that be a difficulty?

Giles Derrington: Fundamentally, yes. Obviously the adequacy agreement is based on the idea of essential equivalence, so there is some flexibility within that. There are various product standards where it becomes impactful, not just for the fact you have to retest and do all those kinds of things, but probably from a productivity standpoint. If you take something like CE marking, the idea that for the UK you would have to open up a box, stamp it with a different UK mark and close the box and partition them there, that is a cost driver for the business as much as anything else. There are ways around that, such as E-marking, but fundamentally, the more alignment there is with these things, the easier and more productive it is, and the quicker supply chains can operate.

We also have a number of members that, because they are international companies, bring products into the UK as their distribution hub and then out to the rest by Heathrow or wherever else. For them, you then get into customs borders delays and those kinds of issues. But there are relatively few major tech manufacturers that make stuff in the UK and then export; it is often coming through, because we are quite good—or have been in the past—at that kind of processing through Heathrow.

Q152 **Mr Leslie:** In a year's time it would be quite surprising if I heard Samsung say that you were suddenly concerned about these things because, talking to you today, you do not sound very concerned about it at all.

Aleyne Johnson: The concerns we have stated to Government are that we want to be able to continue to import the products tariff-free, which is a question mark. I mentioned earlier that some of the products we make within the EU would be subject to a WTO tariff if there was no agreement between the UK and the EU in the future. That is our primary area of concern in terms of products and tariffs. We have made it clear to Government and to others that we very much encourage Government to make arrangements with the EU that mean that we can continue to trade freely. That is the—

Q153 **Mr Leslie:** On the FTA, that is developing a Vietnam FTA—obviously it has not been signed yet, but it is nearly there. Do you have any particular worries about having got all that way, right to the threshold of signing the thing and then potentially we are going to fall out of our EU partnership? Have you made any representations about the continuity of that deal, whether it is going to be picked up or rolled over? What representations have you made to the Department for International Trade?

Aleyne Johnson: We have made representations. We have had a number of very short meetings where we have made it clear that we have trading relations with Vietnam and we want to be able to continue to do that post-Brexit. Now, it is almost not for us to say what form that should take, but what we have said is that it is important that the practicalities that are proposed are able to continue in the future. If the EU is moving along the direction of having an FTA with Vietnam, we hope that the UK has arrangements, whether it be the replication of that deal or something else, which means we are able to continue to import well. Of course the—

Q154 **Mr Leslie:** Did you say you import a lot of it into the UK and then it is distributed from here or not?

Aleyne Johnson: No, it usually goes to the—

Mr Leslie: To the main country?

Aleyne Johnson: Yes. In the case of smartphones, they will come direct to the UK, but in the case of other products, they may not do. You asked about the representations we have made. We want to be able to continue to import things tariff-free.

Giles Derrington: We are saying that those products that sit currently outside the ITA, and therefore rules of origin do apply, it then becomes incredibly important that in the Vietnam deal, as in many other deals, we are looking for downward accumulation on rules of origin. Otherwise it becomes very hard to start tracking back where bits have come from, particularly if part of the R&D is coming from the UK and part is coming from somewhere else, some of the product has come from Korea for those products that sit outside, which is a smaller area for IT than for other sectors, where there is a lot of stuff.

The other thing I would say, just very quickly, is that tech is often in the supply chain of other products. If you take automotive, for example, I believe there are more lines of code in a Ford GT than there are in a Dreamliner aeroplane, so a barrier to automotive being able to travel, that hits demand, that will hit ultimately tech suppliers into the automotive sector. There is a knock-on consequence of a lot of this stuff. One of the big concerns you see with Brexit is the impact on the whole economy, because it impacts on the tech economy and on every other sector.

Q155 **Chair:** Given that the WTO information technology agreement already provides for the tariff-free access for mobile phones, is it important that the Government are continuing on the GSP preferences after Brexit? I think you are basically saying that it is.

Aleyne Johnson: Yes, because there are some products that are not covered by the WTO ITA that are covered because of the GSP arrangement on imports from Vietnam. Therefore that gives us some continuity. We would not want to be in a situation where you lose the ability to import those other non-WTO ITA products tariff-free.

Giles Derrington: It is certainly also worth saying that tech uses products that are not tech products in their supply chain. Even if you were to expand the ITA, which we would obviously be supportive of the UK pushing for, you would still have things that would be a barrier if the arrangements were not transferred over. You think about things that are supportive of cabling, but are not cabling, plastic wire and whatever else it might be, which you are never going to get into a tech trade agreement but are important to that supply chain.

Q156 **Catherine West:** What non-tariff barriers exist in your members' trade with developing countries and how could they be reduced?

Giles Derrington: Fundamentally, as I think I said before, things such as IP protection are incredibly important in tech. It is a fast-moving industry and a lot of the funding going into tech is into R&D. If that R&D is not safe, then frankly your business model begins to break down. That is, I suspect, one of the primary non-tariff barriers. Others include the data issue. That is not a tariff issue but it is fundamental to being able to do business on tech services in-country. That is why we support the UK getting an industry agreement and support work at OECD level to drive out a global agreement on data flows.

Q157 **Catherine West:** On the R&D, is that within companies or is that within universities or centres of excellence?

Giles Derrington: It is a mix. Often university research will be partnered with a company, but fundamentally the patents that you produce, the patents that companies hold, you have to be able to ensure that what is in that patent is not going to be taken, is not going to be produced in a knock-off way. Again, it depends on, particularly with some developing countries, the relationship as companies emerge from post-Soviet economies, for example, as the relationship between Government and business can be potentially a barrier. There are quite a lot of areas where, for example, there are requirements for foreign investment caps, the requirement to partner with a company in-country that is already there. Some of those companies may even be part state-owned and that presents some challenges.

Again, obviously it presents challenges when you are talking about forced transfer of technologies, where you are being required to send over source code, which is then not just going to the company you are partnering with, but potentially into the state and then back out into different companies. Those are the kinds of challenges with developing countries. As I say, a lot of work is being done in the countries where I think tech is strongest. Those are issues that are being addressed and there is a lot of work going on at national levels to ensure that.

Q158 **Catherine West:** On the R&D point, as Members of Parliament we have been approached by universities that are very worried about freedom of movement in general. It is not just about the EU; it is in general, just holding back the knowledge base. Do you concur with that?

Giles Derrington: Without a doubt. If you look at the very top end of R&D and tech, things such as advanced AI, there are hundreds of people in the world who are experts in it and you need them to be able to move around. I was speaking about a year ago to a company that had been searching for a particular type of coder, for a very specific coding language, and they had finally found one in South Korea. They were bringing them over to the UK to serve their entire European operation, and because of that one person, they were then able to build up resources around them, allow them to train people. That expanded the entire product line. If you cannot bring that person over, then that is not—

Q159 **Catherine West:** Sorry, it is a lot of detail, but that is the company applying for the visa rather than the universities applying for visas?

Giles Derrington: That is the company applying for a visa, but absolutely the same works with universities. If you are partnering with universities that have advanced robotics divisions, whatever else it might be, the ability to share that knowledge and also, importantly, not just the people but the data as well, because under GDPR a lot of that research will involve personal data, and if you cannot have that flow, that partnership becomes much more difficult.

Q160 **Catherine West:** Do you take advantage of the Government's support to export to new markets? Because the Government obviously have a package, don't they? Is it helpful or is it a bit stodgy?

Aleyne Johnson: From my perspective, no we don't, because, generally speaking, we would not be exporting from the UK to those markets.

Giles Derrington: I know of some members who have used it. I have not gone into detail with them about how they found it. I think the overall position of many members, as I say, is that these things are useful; what is most important is people in-country from the UK, UK Government representatives, who can facilitate on the ground support as well, which is why we support things like tech hubs as ways of delivering that. It is not just the export finance; it is also the practical day-to-day of finding the market, identifying the people et cetera.

Q161 **Catherine West:** Yes, because obviously the IMF has said developing countries and emerging markets account for close to 80% of global economic growth and therefore the Government support should be supporting businesses in the UK to take it. We know that there is quite a lot of resource from the Department for International Trade that goes into that, but that doesn't help you. Do you know what I mean? I am just trying to match the resource to the Government push and whether that matches what is helpful.

Giles Derrington: I think for established businesses such as Samsung it is partly easier, because you already have your global networks. For smaller businesses it is absolutely helpful. The balance has to be between that kind of support and the income to support those kinds of things as well. Also, a lot of this stuff does not necessarily need to be delivered direct in-country. If you look at tech growth, the growth in developing countries is in mobile phone usage, so the app economy, those kinds of things, which do not necessarily require you to be established in a country to be selling those products, but you will need to understand the country. You need things like language experts as well. If you are a small company, you will not necessarily have a Korean speaker that you can engage with, so you will need something. That is where Government can support.

Q162 **Matt Western:** Just a very brief question, if I could. Just following up on my colleague's question about R&D, just talking about the Galaxy or S9 product, rather, is there any apportionment of R&D that will be attributed to the UK for that product? Do you happen to know?

Aleyne Johnson: That would be, to the best of my knowledge, a Korean R&D project, because in developing the product, much of the R&D that we do in the UK will be about how a particular product could be applied for a particular use, whether it be, for instance, in healthcare or for how 5G might be developed in the UK to connect with products.

Q163 **Matt Western:** I am sure I can get this online, but it would be very useful if you would not mind sending us what your declared profits were this last financial year and the previous year.

Aleyne Johnson: Okay, yes.

Chair: On that note, I thank you both, Samsung and techUK, for your time this morning. It was very useful indeed in our opening session in our inquiry into developing countries in the Commonwealth. Thank you both very much.