Select Committee on the European Union

Uncorrected oral evidence
Post-Brexit UK-EU relations

Tuesday 24 April 2018

4 pm

Members present: Lord Boswell of Aynho (The Chairman); Baroness Armstrong of Hill Top; Baroness Brown of Cambridge; Baroness Browning; Baroness Falkner of Margravine; Lord Jay of Ewelme; Baroness Kennedy of The Shaws; Lord Liddle; Baroness Neville-Rolfe; Lord Selkirk of Douglas; Baroness Suttie; Baroness Verma; Lord Whitty; Baroness Wilcox; Lord Woolmer of Leeds.

Evidence Session No. 2 Heard in Public Questions 10 – 21

Witnesses

I: Catherine McGuinness, Deputy, City of London Corporation; Carolyn Fairbairn, Director-General, CBI; Frances O'Grady, General Secretary, Trades Union Congress.

Examination of witnesses

Catherine McGuinness, Carolyn Fairbairn and Frances O'Grady.

Q10 **The Chairman:** Good afternoon, ladies. I begin by saying how very welcome your presence in this Committee is. It is not judicial, if I can put it that way, but it is important to get an industrial and business handle on what is happening. Let me divert for one moment, which I would not do if it were not for a specific event today. In doing so, I declare my personal interest as the father of three daughters and as the grandfather of three granddaughters. It is worth remarking on the fact that on the day when Parliament Square is being graced by the statute of Millicent Fawcett we have representation—I have absolutely no reservations about this; we are delighted to see you here—by senior industrial figures all of whom are female. At the beginning of my interest in political life 50 years ago, I would not have thought that that could ever have been possible. It is something very much to be commended and welcomed, not least because of the character of the three persons involved.

Fifty years ago, when I started in this trade, albeit in a different capacity, we were looking at the implications of the UK joining the EEC, as it was then. We are now looking at the implications of the UK leaving the European Union. Whatever view one might take of that, it is a complicated issue and we wanted to get an industry and commercial handle on it as well as a purely political and diplomatic handle, although I would not like the witnesses to feel inhibited in any way, not least because I know of the strong personal interest and involvement of some of you in some of the political issues—for example, the Irish border, which has been of considerable concern to this Committee. We need to emphasise that there are real issues arising from the decisions that are currently being implemented in terms of wages, jobs, pensions, investment and future economic growth. I am sure that your delegation will illuminate our thoughts on those as we feel a way towards an outcome.

One of the exigencies, which is to some extent determined by the layout of the room, is that you are at some distance, so we should all try to communicate in a lively way. I hope that you can project your voices and we can respond accordingly. Initially, it might be sensible if each of you, in any order of batting that you like, identifies yourself for the record. This is, of course, a public session—I should have made that clear. Please say briefly what your positions severally—CBI, TUC and City of London Corporation—are in relation to Brexit. What are your priorities? How has your organisation's position evolved since the referendum decision, which was now made some time ago?

Frances O'Grady: Thank you very much for the invitation. I am the General Secretary of the TUC. We represent nearly 6 million working people in every part of the UK in 49 unions. We are also a member of the ETUC, the body that represents union centres across Europe, and will continue our membership of it.

As many of you will know, the TUC, after considerable deliberation—I would not want to pretend that it was an easy decision—campaigned for a remain vote. We know, because we tracked it, that we shifted our trade unionists' point of view. On the day itself, 60% of trade unionists voted to remain. We know that a majority of working people voted to remain, too. But immediately when the result came through, we accepted it. We put a strong argument, right at the start, that we would like to see a team UK approach, to bring the country back together and to find a consensus and a way forward. We also argued early on for a transition agreement, because as practical negotiators we could see that this was not going to be sewn up in a hurry.

Our key priorities are around protecting jobs, including those jobs that rely on trade with the EU. We are concerned about livelihoods and what will happen to wages and prices. We also want a level playing field on workers' rights. That means not just protecting rights but keeping pace with that safety net into the future. Michael Ford QC did a good assessment of those issues for us, which we would be happy to share.

You may have seen this morning that the CBI and the TUC wrote jointly to *The Times* on another key concern for us, which is the avoidance of a hard border in Ireland and the protection of the Good Friday Agreement. From the perspective of trade unions and civic society more broadly, many of you will know that a lot of work went into the lead-up to that agreement and into sustaining it since. As practical people, we are conscious of the importance of protecting good jobs in that respect, too.

Finally, we have a helicopter view of the negotiating table, if you like. On both sides, we give that same message about jobs, rights and livelihoods. We have carried out our own hard-headed—as I would see it—assessment of the options for a future relationship and, indeed, the alternatives if we were to crash out with no deal. It is our view that we would like to stick with the customs union and, indeed, the single market, as the best way of protecting working people. As we say, if anybody has a better idea, we are all ears. But, for now, that is our position. Thank you.

Carolyn Fairbairn: Thank you very much for inviting me today—it is a real pleasure. I am the Director-General of the CBI. We speak for 190,000 businesses in all parts of the country and of all sizes, from start-ups up to multinationals. Seven million people are employed in those businesses, which is about a third of the private sector workforce. We take incredibly seriously our role to reflect those different voices, with as much evidence and measured analysis as we can.

If I wind the clock back to when I joined the CBI and the referendum was called, we, too, took a position, based on the evidence that we had from our members, which was that the majority wanted to remain. We polled them and we were extremely careful about our governance. We found that 85% of our members were very clear that they wanted to remain and 5% wanted to leave. On the basis of that, we took a position. We were very clear, though, that it was about the economics and that there were other considerations—we were not telling people how to vote. Indeed, the day after the referendum, the voice of our members was almost immediately saying that they wanted now to turn to making this successful. They accept the result and it is now about making it successful.

Back in that period, we identified four principles or objectives. Although they have evolved, at root they are still fundamentally the same. The top priority is barrier-free trade. The reason why our members were so in favour of remaining is the value of that single market and customs union membership, which has enabled access to 500 million consumers and supported supply chains across Europe. Barrier-free means no border delays or controls, tariff-free trade, regulatory alignment where possible and access to the people and talent needed for growth. Those were the principles that we established at the beginning.

How has that evolved? As you can imagine, we have continued to talk to our members constantly. We have had thousands upon thousands of conversations. A number of things have become even clearer to us, including the massive complexity of what we have embarked on and the time it will take for business to adapt. Like Frances, we very early on called for a transition period. The joint voice of the TUC and the CBI on that—with the corporation—was very powerful and represents real progress.

Among the other points that we have learned is that the uncertainty has genuinely damaged our economy already. We surveyed our members in October last year: 40% told us that they had delayed or postponed investment decisions. Although the economy is ticking along nicely, our words are that we are at a trot and the rest of the world is at a gallop. We could be doing much better. You see that in the business investment figures. The effect of Brexit on certainty is real, now and very apparent.

The third area of lessons learned along the way and evolution is that hugely important issue of the Irish border. We talked about it and tried to understand it in the run-up to the referendum, but, gosh, the understanding has escalated. The connection between the Good Friday Agreement and peace and prosperity in Northern Ireland has become clearer to all of us. I am in Belfast on Thursday with our members. I am speaking at a dinner for 600 businesses. This is number one on their minds. It is hugely important that we solve it.

Finally, on our position now, based on that evolution, we have three priorities. The first is around that border issue. We have taken a clear position on customs and the importance of retaining a customs union possibility on the table. Like Frances, we are all ears. If there is a better solution to the Northern Ireland border, we would like to hear it. But it is not just about that. When I am in the Midlands, I hear about our SME members who export to Europe. There are 150,000 businesses in the UK that only export to the European Union. They have no ability to create systems to be able to deal with border controls. We are very clear in our position on customs. Secondly, on regulatory alignment, we produced a major report, which you may have seen, called *Smooth Operations*. We analysed 23 sectors and asked them which regulations really matter. The answer is that there are opportunities for divergence from EU regulation but they are modest compared with the costs of divergence. From that, we are taking the position that regulatory alignment will be vital. The final issue for us—it is absolutely central—is people and the future migration model. It is often the first thing that businesses and CEOs raise with me when I see them. They are concerned about the climate that we are creating and the uncertainty around the future. This is of huge importance for our global brand as well as our domestic business environment. Yes, we need a controlled migration model, but we also need an open migration model for the future.

Catherine McGuinness: Thank you for inviting me and, indeed, for your introduction. It was important to raise the point that we are all women speaking here today, because there is so much more work to be done, if I may flag that up.

The Chairman: Personally, I accept that.

Catherine McGuinness: I chair the policy committee in the City of London Corporation. That means that I am effectively the political leader of the elected body that both looks after the square mile—we are the local authority for the square mile—and has a close relationship with the financial and related professional services sector that carries our name, the City, although of course it is a UK-wide sector. It involves 2.2 million direct jobs and about £74 billion of tax a year. People work directly in it in Belfast, for example, where there is a strong cluster. It is a UK-wide asset and export sector. John Glen described it just yesterday as the fuel for the economy.

The Chairman: You could also say that it is a European asset.

Catherine McGuinness: We could indeed. It is a very important point. The financial and related professional services sector with which we work is a global sector serving global clients, including European customers and businesses. That is very important as we look at what would work for the sector. We are not asking for something for the UK; we are asking for something that will work for a global sector to enable it to carry on operating optimally.

Before the referendum, we took an unusual position for an organisation that is normally fairly non-political in that we actively supported remain. We did so because our stakeholders—the businesses with which we work—told us consistently that that would be the best outcome and that it was what they wanted. Since the referendum was decided, we have been working pragmatically with the sector to try to identify what the issues are for it in this tremendously complex situation and what the best solutions would be to enable it to carry on working best and then to advocate those solutions here, with the EU 27 and wider afield—this being a global sector, what we decide for it will have an impact in countries beyond the EU's borders.

It is an immensely complicated area. We could talk in detail about the specifics, but I will talk about the three core pillars that the sector has asked for. I call those the three "T"s. The first is transition, which we all felt was important, for a number of reasons. The first reason was to avoid people making suboptimal decisions before the ultimate arrangement is clear. Secondly, because it will take time to move carefully through this process, wherever we are going, a lot of plumbing will need to be done in terms of documents that need to be redrawn and arrangements that need to be altered. We can all reflect on what we have had to face in these last few months in our own inboxes with GDPR and having to click on "Consent" and so on all the time to keep our emails flowing. Then put yourself in the position of a business receiving multiple requests from its insurers, its banks, its investment advisers and whoever else it is dealing with on this front, to make even small changes to reflect whatever new arrangements will have to be made. It is going to be complicated.

On the transition, we want a trading arrangement that allows the best possible mutual access to markets, so the sector that is based here can continue serving European customers and, equally, institutions based in Europe can continue operating here. There, a considerable amount of work has been done. The sector has come together in a way that I think is unprecedented. We have been working with the various trade associations and cross-sectoral bodies and the solution that seems best to us is an arrangement in an ambitious free-trade agreement, allowing for mutual market access on the basis of mutual recognition of regulatory outcomes. That solution has been put forward, in particular, by IRSG, a group of global practitioners, which the City of London Corporation and TheCityUK support. In the interests of clarity, I should say that I am a deputy chairman of both TheCityUK and IRSG, but that is ex officio because of my position. What we are looking for is an ambitious trading agreement that will allow markets to carry on operating across borders. We feel that that would be in the interests of the EU 27 as well as the UK.

The final "T" is the question of talent, of people. In order to serve a global sector, the City has drawn heavily on a global talent pool. More than 41% of workers in the City were born outside the UK. The wonderful diversity that we have in London and indeed in other parts of the sector across the UK has helped it to understand the needs of its global customers and to service them. We feel it is essential that there is an immigration policy for the future that allows firms to recruit, retain and move the people they need. We need an immigration policy that allows that and is easy to operate, so that people do not have to spend ages filling in forms and find impediments to getting the consents that they need to come, while at the same time, of course, supporting the local workforce to aspire to the jobs that we can offer.

Those are the three "T"s—talent, trade and transition. We do not take a position on the customs union, because, frankly, it is not directly applicable to us and those asks in this sector's case. We have been pragmatic and are trying to operate within the red lines that have been put down, so we are not asking for membership of the single market, although that would also give us what we are looking for. We are trying to operate with the red lines as they are. Nor do we take a position on the Northern Irish border, because we probably have no locus to comment on that, but I just say that today is the 25th anniversary of the Bishopsgate bomb, which was a direct action by the IRA trying to disrupt the City. Indeed, I am going straight from here to a commemorative event. It is important to remember just how far we have come, what progress we have made and how important it is to safeguard that.

The Chairman: Thank you very much for those introductions, which are very helpful for setting the scene. I hope to retire, as it were, and to allow the Committee to ask you further questions. We have about an hour, if that is convenient for everyone, given their schedules. Without being invidious at all, I particularly thank Catherine for reminding us that there are real-world consequences of the position, or the potential, in the island of Ireland, which I know she is aware of for other reasons. That is a matter of considerable continuing concern to this Committee, as it has been in your initial statements.

Q11 **Lord Jay of Ewelme:** Welcome. It is good to see you again. You all spoke in different ways about the importance, if we are going to leave, of making leave succeed. Some argue that the Government's position on how we will do that has not always been crystal clear. Would you say something about how far you found the Prime Minister's Mansion House speech, which set out an agenda for the future, coherent and convincing?

Carolyn Fairbairn: Thank you for that question. I am happy to go first. It was a real step forward, I have to say. The challenge we had up to that point was the sense that you could have everything. The core central question, which is the trade-off between access and control, was somehow not there. Having your cake and eating it was the phrase of the moment. The business community just knows and knew that that was not going to be possible. The real steps forward were, for example, the recognition that membership of agencies would be potentially valuable—something that we still think is incredibly important to seek to get. There was mention of the fact that frictionless trade is a real ambition but that things will not be as good as they are now. It was very helpful to hear that, because then you are in the world of trade-offs. There was also the point that the ECJ would potentially continue to have a minor role. It had been such a red line, so this all felt very positive.

If there is still a concern—and it remains a serious one—it is that if Mansion House set out the what and the vision, it did not say enough about the how. Without taking everything back to customs, and I certainly do not want to do that, I think that that is almost a fulcrum issue, in a sense, because we all share the aspiration of frictionless trade across borders but there are not a million ways to achieve it. The how around the Irish border is where we would like to see the position evolve. So, a big step forward, but more work to do.

Catherine McGuinness: For our part, we very much welcomed the Mansion House speech and indeed the Chancellor's speech shortly afterwards. It was a positive step forward, because we had been waiting some time—I would say too long—for clarity on the ask from this country. We particularly welcomed the position taken over services and the inclusion of services in the agreement. We believe that it is essential that financial services should be covered in whatever deal we do.

What we need to do now is to move on from speeches, which the EU 27 tell us they do not recognise as being proper negotiating asks, to more detail and clarity. Of course, that may be happening behind the scenes and we may not know about it. The message we were getting consistently until those speeches in our journeys around the EU 27, where we and the rest of the sector are going, was, "Tell us what you want. We need to know what it is you are asking for". They now know in headline terms, but they are still asking us for greater clarity and greater detail, and that is something we all need.

Frances O'Grady: I think that back at Congress House slightly less enthusiasm was expressed for the speech, although I very much agree that it was significant that this was the first time that the Prime Minister acknowledged, or warned, that we would not get the exact same benefits. That was an important acknowledgement. From our perspective, that has real-life consequences for jobs. People still felt very much in the dark about exactly what benefits we will be worse off in respect of. It was also welcome, as I recall in that speech, that the Prime Minister ruled out a hard border in Ireland. If I remember rightly, that included ruling out physical infrastructure. That is important to remember, certainly when we get on to discussing possible solutions—smart borders and so on.

I think the lower degree of enthusiasm was over what we saw as essentially still a wish list. Like everybody else, we are in close contact with our European counterparts. We meet heads of state around the EU 27 and we were clear—the Commission had made it very clear to the UK—that there was going to be no cherry picking, in which case that list did not look as though it would sit easily alongside what the EU had said.

Finally, we believe that there was a missed opportunity on the part of the PM. I am not pretending that it is exactly the same, but there are times in industrial negotiations when you make a gesture and extend an olive branch, in practical terms, to try to unlock them. This was a time when the Prime Minister could have responded positively to Monsieur Barnier by offering a level playing field on workers' rights. Everybody has said that they do not want a race to the bottom. Here was a chance to say in concrete terms, "We're going to prove it. We'll find a way to guarantee that there will be a safety net between us and we won't be competing on the back of unfair competition by worsening workers' rights". That would have been an offer that might have created a different tone and atmosphere around the negotiations.

The Chairman: "No social dumping" is the phrase that people tend to use around Europe.

Lord Jay of Ewelme: You have all said that you would regard that speech as a move forward, but not enough. Catherine McGuinness talked about the need for greater clarity in what the Government want to achieve. Can you say a little more about what in the jargon is known as the granularity of what the Government might now be aiming for, what they should say they are aiming for and what we need to know they are aiming for? Some of that has come out in the answers that, for example, Frances O'Grady gave just now, but could you say a bit more about it?

Carolyn Fairbairn: Absolutely. In no particular order, for example, we have talked about where we would want to be and the value of being members of agencies. I was in Berlin on Friday, and the question was "Which ones, and why? What is the mutual benefit?" That could be set out clearly. Secondly, it would be useful to be much clearer about regulatory alignment. The speech had some quite detailed examples—it mentioned car parts—but it was not comprehensive. There is an opportunity to be comprehensive—it is one of the reasons why we produced our report on 23 sectors—and again to say that we want to remain aligned in the majority of areas. That goes also to Frances's point. The evidence base for it is incredibly powerful. Another area where clarity would be hugely welcomed and would help move things forward would be around our ambitions for the movement of people in future. That feels as though it has stalled. It is a problem in the here and now. It is also a challenge we are hearing from our European business colleagues across Europe. What does the UK want? How closed or open will it be? I would pick those three as important areas, added, of course, to clarity about a solution to the Irish border.

The Chairman: If I may, I will pick up on one point: the question of movement. Have you any indication at the moment as to whether people from EU 27 countries are increasingly reluctant to come to the UK because they are uncertain of their continuing rights and regime? That can be at both the executive level and the working level. Perhaps others would like to join in on that.

Carolyn Fairbairn: Categorically yes. There is a combination of factors. Let us be honest, the exchange rate plays quite a big role, particularly at the non-graduate end of the market—we do not like to talk about "unskilled" because everyone has skills. The potential to send money home is hugely important. We have not been clear about rights during the transition; that is becoming clearer, but it is still not clear in the event of no deal. We are hearing that from members across the country. I was with a yoghurt manufacturer in Somerset who has employed, almost entirely, fantastic Romanian and Polish workers, but they went home after the summer and did not come back. Catherine will be able to talk about that at the high end. It has become that much harder, when people have the choice of London, Paris, New York or Tokyo. It is a challenge in the here and now.

Catherine McGuinness: That is what we are hearing. I cannot give you precise figures, but I have spoken to recruitment consultants who tell me that this is what they are experiencing. We are also hearing from our businesses that not just EU workers but others are feeling somewhat unwelcome. People who might previously have wanted to make their lives here are applying for jobs elsewhere. They are not applying to come here in the same numbers or they are applying for moves elsewhere. We are hearing it not just from the banks. You can always get somebody to come for a couple of years and work here, because London is such an exciting place, but the pressures are for people who might stay here for longer. It is worrying that we are hearing this also from the tech sector. Entrepreneurs are becoming concerned and are either not coming or not staying. I mentioned earlier the problems with having to apply for visas if that process is difficult. We are also hearing very clearly that people are getting very fed up with that. They are ringing home and saying, "You know, I thought it was great coming to London. Actually, it's such a bore getting the visa". We are hearing from a number of sources concerns that people are less keen to come here to stay and work.

Frances O'Grady: I would be happy to put in a supplementary note.

The Chairman: Please do.

Frances O'Grady: There are hard examples, particularly in our public services, and we are seeing the stress that they are suffering as a result. We know that the number of EU nurses registering has dropped significantly—that is true of midwives, too, I believe, but we can provide more information. We are also getting information from our unions of regular incidents of EU citizens, particularly in public-facing roles—for example, on the railways—being asked, "When are you going to go home?" They think, "Do they mean: when am I knocking off?" Actually, they mean, "When are you going home?" Some of the publicity around what has happened to the "Windrush" generation does not help in sending out a message about whether Britain is welcoming to migrants from any quarter. We need to take it very seriously.

Lord Jay of Ewelme: I would be grateful if you and Catherine could say a little more about what greater clarity we could hope for from the Government.

Frances O'Grady: I do not want to simplify this too much, but, in the interest of brevity, the EU's guidelines seem very clear: if you rule out single market and customs union membership, you are left with Canada, no pluses. It seems to me as a negotiator that the Prime Minister made a strategic mistake. It is fine having red lines, but you do not publish them. You give yourself some room for manoeuvre; you do not tie yourself up so early on in the process. I would like to hear some clarity about the real priorities for the people of this country. We argue that, among those priorities, the bottom line should be jobs and rights. That is what matters to people. Clearly, the Prime Minister faces a political challenge. She has to reach over the heads of the hardliners in her Cabinet and appeal to the country, because the country needs to be prepared for those pragmatic trades and compromises that will need to be made. Finally, she needs to be clear about tackling the root causes of people's concerns. Certainly, immigration was a big debate—we cannot pretend that it was not—but in the past couple of weeks, I have been to Birmingham, Newcastle, Barnsley and the north-east talking to people about immigration. They believe that people should be paid the rate for the job wherever they come from and that employers should not be allowed to undercut. If we can tackle that and some of the pressure on our schools and hospitals, I think we could have a very different debate.

Catherine McGuinness: I was eliding two points: the messages that we are getting from the EU 27 where we are still being told that they need more detail. That may be happening, as I say, behind closed doors, but they were saying to us, "Speeches are great, but that is not what we understand. We need to see hard and fast proposals". The sector also needs more clarity on what exactly is being asked for. We believe from the Chancellor's speech in particular and from conversations that we have had that we are looking for is being advocated. It would be helpful to have clarity around that and confirmation that we are looking for an agreement which covers services as well as goods and not one based on one of the existing models of equivalence, which would not work—I can explain why. The big issue that we need clarity on soon is what the future immigration policy will be. That is becoming very urgent.

Q12 **Lord Liddle:** It is on this point that I would like to ask another question. You have been very clear about the uncertainties that have been created on migration in the short term. The question is: what are your recommendations to the Government for their long-term migration policy post Brexit? In the referendum, there was a kind of received wisdom on the Brexit side—obviously, I was not on the Brexit side, so I hope that I am not misinterpreting them—that we would welcome high-skilled migration post Brexit but that there was an opportunity to cut back considerably the number of low-skilled migrants to this country. Is it the business view that that should be the objective, or not?

Carolyn Fairbairn: Yes and no. We certainly need high-skilled labour, but we need non-graduate labour as well. A concern at the very beginning was the idea that, "That's the only problem". It is a tempting route to go down; all the polling research shows that that is an easy public argument, but it is interesting to look underneath—Ipsos MORI does some fantastic polling in this area. If you ask people about specific skill sets and needs categories—for example, construction workers, care workers and people to come and pick our fruit—they will say, "Of course we need them". It is a much more subtle debate than just high-skilled versus low-skilled. Business resists that simple bifurcation of the two.

A really simple recommendation that we would have for the future is: drop the migration cap, drop the migration target. This creates a numbers-based rather than a needs-based policy. If we worked bottom up, we would need controls—I think our businesses recognise that—but having an arbitrary number creates all sorts of distortions. We have hit the visa cap for non-EU people coming to our country every month in the last four. We are saying that we cannot have engineers come into this country. The reason is that we have fewer nurses coming from the European Union so more are coming from the outside and they are using up all the visas. That is madness for our economy. We need to talk about all skill levels. Moving away from a net migration target is very important. We want to work constructively with the Government on a new model, because we know it has to change.

Lord Liddle: May I press you? Is it the CBI's view that it does not make economic sense from the point of view of British business to go for a big cut in low-skilled migration to this country?

Carolyn Fairbairn: Categorically, yes. If I look at where we are trying to go as a country, I see that we are trying to build a quarter of a million houses a year and to grow our economy into the tech space, where we need all sorts of skills. This needs to be tied into the industrial strategy and what we are trying to be and become. It is our job to build that evidence base. A dramatic cut in migration to this country would, given the skill shortages we have now, undoubtedly hit our economy. Again, we can furnish you with more evidence.

The Chairman: Frances, do you want to add a word from your perspective? I am conscious of the time.

Frances O'Grady: I am fascinated by the way in which the debate has moved from being about "cutting migration" to now being about "controlling migration". If we are going to talk about controls, we will need to convince some of the people I talk to that there will be controls on those bad employers who use migrant workers to worsen wages and conditions. We have seen that happen in Sports Direct and in all sorts of places. Some 3 million workers are now on zero-hours, agency and other insecure contracts. People rightly feel worried about that. That is where our action should be focused. The TUC has always advocated a fair migration system. We do not see workers as the problem; we see exploitation as the problem.

The Chairman: If you can forgive me, Lady Falkner, I think that we need to move on a bit now. I am sure that you can get in your points in a moment, but I do not want to run out of time in managing the overall agenda.

Q13 **Lord Whitty:** You have all touched on this in part, but I would like to hear more clearly your take on the position on the other side of the negotiating table. What do you think of the EU's position as set out in the Council and Parliament guidelines? How realistic is that? Could you also perhaps touch on the views of your counterparts in Europe and what pressure or otherwise they may be bringing on the negotiations?

Catherine McGuinness: Perhaps I could start on that, because this morning I introduced Commissioner Dombrovskis to an audience at the Guildhall, where he gave a trenchant speech making rather clear his views on the asks—I remind you that our asks for the sector are around transition, trade and talent. He spoke particularly about our asks on trade and said effectively that the only show in town was equivalence. He conceded that equivalence has defects but said that this was what the UK would need to look for. We dispute that. We feel that it is in the interest of the EU 27 as well as of the UK to reach an agreement on financial services which reflects the fact that this is a global sector serving customers cross-border. There are many examples of where the EU has accepted financial services in agreements. We can look at Canada, although we need to do more with that; one can look at South Korea and Japan; one can look at the proposals that the EU came up with on TTIP. It is not the case that there is only one model that it will stick to, but that is the message that we got from the speech this morning. We have work to do to persuade it otherwise, and that is what we will try to do.

Carolyn Fairbairn: Our network across Europe is BusinessEurope. There are CBI equivalents in the EU 27. We have worked extensively with them and seen them all in the past three months—I was in Berlin on Friday; I will be in Paris in a couple of weeks' time. There are a couple of positives about where we are and a couple of challenges. The real positives are that business across the European Union is very aligned in wanting to protect as many of the benefits as we have now. For example, there was a united business voice around transition, which was very powerful. That is a good thing. There is no attitude of punishment; I do not hear it in any conversations that I have. For example, businesses are very pro regulatory alignment and trying to find some solution on customs.

Where we have a real challenge—and I hear it among my business colleagues and in my conversations with the Commission—is the narrow approach that the European Union is still taking, it being that there are just two models out there—it is either Canada or it is Norway. We know that the Canadian model is totally inappropriate for the UK's and the EU's needs. It is narrow; it does not cover financial services meaningfully. It was made for two economies—"We're here and it will take us to there". The Norway model brings all sorts of challenges in terms of single market membership. As with Catherine, that is not our position.

We are trying to move the debate into the idea of a new economic partnership. Actually, there is something quite interesting here: when we talk about free trade agreements, we trigger a reaction in the European Union which immediately thinks Canada. When we talk about a partnership, it gets a different result. We have real opportunities to move the debate. On the way in which the transition process developed, this time last year Brussels had ruled it out; I had conversations with Sabine Weyand and it was ruled out, so we moved it. Now it is to move away from these very narrow models, but it will be a challenge.

Frances O'Grady: We have a common position with the ETUC. We were pleased that through our collective lobbying the EU guidelines and resolutions from the European Parliament included the commitment of Monsieur Barnier to seek a level playing field on workers' and social rights. For our part, that is positive. We are concerned that Brussels should be as worried about the impact on jobs as we are—for all of us, as our fate is intertwined. But my sense is that the UK is not always as sensitive as perhaps it needs to be on what it takes to keep the 27 together, why they take a rules-based approach, what the politics is, what scope they have for flexibility and how much will be based on precedent. Whether we like it or not, we also have to address the different scenarios on offer and what they mean. I would like a little more old-fashioned honesty from Westminster about what those different scenarios mean for people's jobs, their families and their communities. We have now seen the Cabinet advice, but we need much more transparency and information if we are to put in place the plans that we will need to protect people as well as we can.

Lord Whitty: From your perspective, taking both the European side and the British side, how much common ground do you think there is? How much really serious conflict is there and what have we not addressed at all? What is missing?

Carolyn Fairbairn: I think there is real common ground, and it is around the protection of jobs and investment. The economic priorities are centre stage. That is what got us to the transition agreement: a cliff edge would be bad for everyone. That is the common ground. If we can keep on taking the debate up to the level of prosperity, that is where it will be most fruitful. However, the indivisibility of the four freedoms in the single market is a roadblock. We need to find a way of achieving these goals. This is where the red lines are so unhelpful. One of our messages to all sides is: let us soften those red lines. Mansion House softened them. We would like more softening on the European side, to recognise that there is space in the middle. President Macron has recognised that, and a bespoke model is a possibility. The common ground that we can keep coming back to is shared prosperity and what we have created. One of the roles that we can play as a business organisation is to keep that centre stage.

Catherine McGuinness: For the financial sector, the common ground is that we are all concerned to have well-regulated institutions that do not pose systemic risk that might damage the economy and harm ordinary people in the way that we saw just 10 years ago. That is something on which we should build for the future. It is not just the risks that we faced 10 years ago but the new and growing risks around cyber threats or crypto assets. There are a lot of areas here in which we could work constructively together. Addressing those and speaking with the EU about them is a helpful way to establish the fact that we need co-operation on regulation.

That takes me back to my point about mutual access to markets being based on mutual recognition of regulatory outcomes. There is a fear among the EU 27 that we may be tempted to tear up some of the regulation that has been developed during the past 10 years. People keep expressing this fear to us, even though we keep saying that we do not detect from the sector any wish to have a bonfire of regulations or to tear up the rulebook. Indeed, the governor of the Bank of France stressed again this morning his concern that there should not be a big change. That is something on which we can build.

We also need to look at getting across an understanding that some of the issues for the sector that we are talking about impact on the ordinary person in the street in countries across the EU. I take as an example pensions, insurance and so on, mentioned at the beginning. If we do not make sure that contracts continue to work, we will find ordinary people being impacted in their daily lives.

Frances O'Grady: You would have thought that the shared commitment that this should not end up in a race to the bottom would be a foundation to build on, but my sense, not just in Brussels but here, is that working people would like some evidence of that, because we have seen amendments to the Withdrawal Bill that would provide some protection—non-regression clauses and so on—rejected. As I said before, I would issue a challenge to the Government: propose a clause for any deal that provides a cast-iron guarantee that workers' rights will keep pace and that this is not about our becoming a cheap-labour island.

The Chairman: Addressing my colleagues as much as the witnesses, I think that we will need to quicken our pace a bit. This is a very fruitful session—I do not wish to signal other than that—but we now need to turn to some of the implementation issues and areas in which, collectively and in our future report, we may be able to suggest ways of adding value to the Government's effort.

Q14 **Baroness Browning:** In your contact with your counterparts in the EU, what would you describe as the most significant areas of disagreement? We have heard quite a lot about your contact, which is excellent, but we have not heard much about how the UK Government have involved you in how the UK's approach to future UK-EU relations will develop. Have they approached you? Have you had to hammer on the door? Perhaps you could wind that into the question.

Carolyn Fairbairn: On areas of disagreement, the one we keep hitting is the idea that we want to stay aligned but want a process of managed divergence over time, particularly the three baskets model embedded in the Mansion House speech. That sounds hugely like cherry picking, yet there is an appetite for a high-alignment model. We need to keep working on that. I am convinced that there is a compromise in there, but it is a major area of disagreement. The other area, which I am sure Catherine will speak to, is exactly what relationship we have on financial services. I do not think there is a united view across the EU 27 on that, but, again, our case that the prosperity of the European Union is served by a strong City is important. Those are two big areas.

On engagement with the Government, there are a lot of routes in. I can honestly say that we have a good relationship with BEIS, with the Treasury and with the Department for International Trade. What is not quite there is a systematic engagement with business on solving these problems and finding the compromise solutions. I will give you a particular example just from today. I spent the morning with the Deputy Prime Minister of Belgium. He came with my opposite number from Belgium. They are completely joined up there. They have a group of 25 business leaders who meet privately every month and regularly inform the decisions taken by the Government at the highest level. We do not have that. We can create it. It is the right time to do it, because we are heading into the time of really solving the problems that we have touched on today. So it is there, but it is fragmented, and it needs to be joined up much more.

Frances O'Grady: I would highlight three key areas of disagreement. One is the dispute settlement mechanism. Clearly, the UK has rejected the ECJ. It is an area of big concern for trade unions around trade agreements more generally, so we will be watching that very closely. I agree with Carolyn on the question of a sectoral approach versus that being seen as cherry picking. That is clearly still a bone of contention. The third area is Northern Ireland and the European Union's proposal of a backstop of full regulatory alignment. It has dismissed the UK's alternative proposals, including smart borders—which, by the way, from all the evidence I have seen can take at least five years to set up, even if you take it at face value. So I would highlight those three areas.

On our engagement, I suppose I would say to the CBI, "There is always someone worse off than you". It is, shall we say, patchy and I hope that that does not reflect the level of priority given to our core concerns, which are widespread, whichever way people voted in the referendum, covering jobs, rights and so on. The optics on that are not great, because this cannot be seen just as a Brexit for business. This is where we started: that will not look good. I met the Brexit Secretary yesterday, and I am pleased that he agreed to meet the TUC's union leaders, but I will say that that will be the first meeting since the referendum.

The Chairman: I will pass that message on when he comes to see us next week. Again, I am conscious that I am holding you to the fire, and my Committee too, in terms of timing.

Catherine McGuinness: I will be very brief. The main message that we get back from the EU 27 is that we have to rely on the standard model; we cannot ask for a bespoke agreement. We dispute that because of all the things I said earlier. We see signs of movement. For example, the minutes of the March Council meeting reflect the idea that financial services should be included. So we see signs of movement and we think that if we keep working on it we may see more.

Our relations with government have changed over time. We are absolutely having lots of conversations. The sector has been very joined up and we are having lots of conversations with government and individual departments. I agree with Carolyn, though, that more widely that is fragmented and anything we can do to help, by bringing businesses together, we would be happy to do. It does need a more co-ordinated approach.

Q15 **The Chairman:** There is always the difficulty that some of the questions we will ask have already been alluded to. Reflecting on what you have said, and perhaps displacing one or two of my colleagues in the interests of time, can you confirm that you, as organisations, have active discussions with your counterpart organisations within the EU and with the UK negotiators? We need to be clear about that. Relations are continuing and, to some extent, as this becomes more immediate, I hope intensifying.

Then, picking up a considerable concern, which I think will pave the way for Baroness Falkner's line of questioning, because of her specific sub-committee, the question of financial services is mainly for Catherine, although others may wish to comment. Is the fact that it was not in the European Council guidelines sinister? Is it something we can recover in the final agreement? Where do we go to? We are trying to get a sense of how the negotiations are evolving, how much you are inputting and how we can mutually reinforce the process of getting a satisfactory outcome.

Catherine McGuinness: I detect a certain amount of disagreement around the table, but my understanding is that financial services were not covered in the final text of the negotiating guidelines, but no sector was referenced. Indeed, aviation was also removed. But we were pleased to see that the March General Affairs Council minutes recommended that financial services should be included, so we are not reading too much into the fact that it is not referred to specifically in the final negotiating guidelines as published. In the messages that we get back from people, the starting point is that we have to expect a standard model, to which we will keep replying that, first, the standard model has been varied and, secondly, it does not work for a sector of this size.

The Chairman: Any other comments on that? Lord Liddle wants to add something.

Lord Liddle: I am very supportive of the City's desire for a bespoke agreement but I am not at all clear from what I have read what we are actually asking for. There is a lot of talk about maintaining alignment with the EU in the long run but retaining our regulatory autonomy. These seem to me to be contradictory statements. It is not clear to me whether the aim is to have a co-operative relationship. Are we saying that we want the EU to tell us what regulatory changes it is going to make and that if we say we do not like that it would not go ahead? Vice versa, are we saying that if the EU did not like what we wanted to do we would drop it?

Catherine McGuinness: When you say "we"—

Lord Liddle: I am talking about the British Government as representing the City and financial services interests.

Catherine McGuinness: Indeed. That is one area where it would be helpful to have more clarity around exactly what they are asking. I can tell you precisely what the sector is proposing, which goes into detail. There are a couple of versions around but what the IRSG is proposing goes into detail, not on the drafting but around how this would look as a chapter of a free trade agreement. It covers the question of alignment of regulatory outcomes, setting up a procedure for judging and deciding if there is a divergence, and allowing for divergence, so we are not shackled to the same regulatory framework for ever. Is that what is being asked for? It looks, from the speeches and from what we have heard, as if what we have proposed is the ask, but we do not have the complete details.

Baroness Falkner of Margravine: Before I come to my substantive question, I want to pick up a point that Lord Liddle made earlier. This is particularly for the CBI. You gave an emphatic yes in answer to Lord Liddle on the need for low-skilled migration. However, I am also aware of previous documents by the CBI done on the future of work and the role of the workplace, as well as the report by Matthew Taylor of the RSA. How do you reconcile those two statements? You say emphatically, yes, we need to continue low-skilled migration, yet we recognise that fast approaching is a different model of workplace and a different level of employment in the economy, particularly low-skilled employment. It seems to me that there is a fundamental contradiction if you want lots of low-skilled workers to be able to come and then you get robotics, machine learning and all that displacing those workers.

Carolyn Fairbairn: To clarify my answer, it was very much about what businesses are telling us at the moment, about skill shortages that are at their highest level since 1974, across the range.

Baroness Falkner of Margravine: I was asking specifically about low-skilled workers.

Carolyn Fairbairn: Low-skilled as well. If you talk to our farmers, our food processors, this yoghurt company, they are finding it harder to recruit. We have an unemployment rate in the south-west, for example, of 0.8%. I am talking about now. In terms of the future, I could not agree with you more. We are doing a huge amount of work on the retraining needs of our economy. The CBI is hugely committed to that. All our work absolutely has to have those two considerations in mind: how we train our young people for the workplace of the future and how we continue to remain open yet controlled in our immigration policy for the future.

Q16 **Baroness Falkner of Margravine:** Thank you. That has dealt with my concern. We have had a lot of discussion on this in the past hour or so. Looking back at what has happened and where we are, what do you really think will come out at the end? I know it is a bit of crystal-ball gazing. We were saying before you came in that confusion is not a rare trait at the moment. However, what do you think the likely outcome of the negotiations will be on the relationship between the EU and the UK? Do you think that we will get a trade deal and, if so, what will that deal look like?

Frances O'Grady: As they say, every day is a new adventure, and I am conscious that it is not always easy to predict. From our perspective, it was important that Monsieur Barnier left the single market on the table.

It will stay on the table during the transition and we would encourage the Government at least to explore it in some depth. Our best guess is that we will probably end up with some kind of free trade agreement. We then quickly move on to the question of how long all that will take. If CETA is a benchmark, it took five, six or even seven years before that was signed off. Similarly, as I mentioned, there are some of the other proposals around the so-called smart borders. Even if you take them at face value, again, we could be talking about five or six years. How much will it cost? Who will do it? Will it be Capita or some of the other major outsourcers? They are not looking very stable at the moment. I have to say that it does not look rosy from our perspective and there are big questions around how well prepared this country is. We have an industrial strategy but I am not sure that our members are feeling it much at the moment.

Baroness Falkner of Margravine: Can you add in on whether you have seen any opportunities? We know about the drawbacks, but do you see any opportunities coming out of this in the future?

Frances O'Grady: It is difficult when we see that the Government’s own impact assessment says that we are going to be hit, that we are going to lose out and that it is going to cost the economy in a range from a drop of 8% up to a 2% drop, even if we got Norway. There are real consequences for people’s jobs and livelihoods. Of course, even if we were to get the customs union, that does not deal with the 80% of the economy in the services sector. A lot of jobs are dependent on trade in services with the EU, but relatively little attention has been paid to that in the discussions about the customs union. I am worried that we are forgetting about where the bulk of our economy lies and what that means for jobs.

The Chairman: Are your colleagues hunting for the upside?

Carolyn Fairbairn: First, on predicting the future, I think that we have to play the cards that are in front of us. That is our job, and we need to bring business and evidence of the voice of the worker from our different constituencies. What I would say, though, is that I am increasingly worried about a future in which there is just drift and no decisions are made. A number of members have said, “We were very worried about no deal. That has not gone away, but now we are worried about no decision”. The impact of uncertainty is dramatic, and we are seeing it in our economy. The idea that there may be postponement and just kicking the can down the road for months if not years is something that we all need to avoid, and there are reasons why that could happen.

The question about the upside is interesting. I think that there is one. It is almost about the shock to the system that we have had. I have to say that in conversations with members, the focus is on performance, competitiveness and exports. There is now a dynamism in our businesses as a result of this. I do not know where it is going to lead. I cannot forecast the future and I agree completely with Frances that the negative impact assessments rather accord with where our business members are telling us they are. But there is something that we need to draw on, which is where the industrial strategy comes in, and we must not let it be crowded out by Brexit. That is something that we are committed to, so there is the opportunity. It is about the competitiveness of our economy in the future.

The Chairman: I think I can see you nodding in assent, Catherine.

Catherine McGuinness: I was going to say the same thing. We have not been able to identify specific opportunities coming out of Brexit. I have had cross-sectoral meetings with people from other sectors who are saying the same. But over the past few months I have detected a new mood of "get up and do", so we have been galvanised. People are saying that they must examine the fundamentals to see what best they can do with them.

Baroness Kennedy of The Shaws: Belt and braces.

Catherine McGuinness: Exactly. That is perhaps the silver lining. On the question of whether we will reach an agreement, who knows? I am hopeful that if people listen to the economic arguments, we will reach an agreement and it will be deep and comprehensive, but I think that there is a lot to play for yet.

Q17 **Baroness Kennedy of The Shaws:** We had a rather interesting witness session last week in which an economist from Cambridge, Dr Meredith Crowley, gave evidence. She said that the future is inevitably going to mean being in trading blocs. Leaving Europe and freewheeling off with Britain befriending the world will mean that we will end up having to look at what is better for us at that stage. We will look at the Pacific trading bloc with Australia, New Zealand and so on in order to head off China, or the Mexican/Canadian thing with the United States. The nature of the globalised world lies in being in a bloc. Going on your own when you are a wee place like the UK will not work for us in the big wide world. What do you make of that?

Carolyn Fairbairn: I have to say that we would agree with a lot of that. The economics of it are compelling in that bilateral trade deals are less advantageous than multilateral trade deals. Our members are saying the same thing: there is more power in being part of a bloc and negotiating in, for example, India or China, so there is something in that. We then need to look at the arithmetic.

Baroness Kennedy of The Shaws: I am sure that Ms O'Grady would say that it is like collective bargaining.

Carolyn Fairbairn: Let us look at the numbers. The total Trans-Pacific Partnership accounts for 8% of our trade. If we join that, we are joining a smaller club than we are part of now. These numbers really matter, and I have to say that I would agree with what has been said.

Frances O'Grady: Of course we are in a global economy, so you combine to boost your bargaining power. This was part of the TUC's assessment of looking at where our best options lie. The question for us is that the EU single market is the only bloc that provides a voice for working people and a level of protection for them that we think is worth having. No other bloc does that. That is the difference. We will have to play by someone’s rules, but it is a question of whose rules.

Q18 **Baroness Neville-Rolfe:** On that point, just because blocs are powerful does not mean that you want to be in a customs union without having other aspects of the EU. My worry is that you become a rule taker. You are not part of the negotiation in the EU Trade Council, in which I have been involved in the past, so the Germans and the French will be deciding what the trade remit is going to be in future trading agreements. There is a problem if you are only in the customs union.

That is why I want to move on to my question, which is about what areas we expect to be covered in the framework that we all hope will be agreed in October 2018. Perhaps I could cross-reference the guidelines produced by the Council, which I have to say I took some hope from, particularly section 8, which lists various areas where it is thought that there might be a future relationship. It lists things like zero tariffs and stuff on services—of course improved equivalence on financial services was included but got taken out for the reasons that we have heard. Looking forward to October, what do you think a reasonable prospective conclusion might be on the framework?

Frances O'Grady: The short answer is not a lot, not least because the EU has been clear that there will not be detailed negotiations about the future until the UK becomes a third country. I do not think that there will be much in it. The political declaration might be more substantial, but again we must not forget that of course that is not binding. It is just what it says: a political declaration. I am sure that there will be a lot of fire and fury around that, but it does not tie anybody’s hands.

Carolyn Fairbairn: I, too, took comfort from the guidelines. I wonder whether we could not also hope for some issues that are patently in our mutual interest to be ticked off. In aviation, absolutely nobody wants to threaten our safety: could we tick that off? Could we tick off pharmaceuticals, so that drugs can get to patients? That will be one thing that we will work towards. Can we get away from the language of “free trade agreement” on to the area of “association agreement”, which is the European Parliament language? I know that there are challenges with that, but if, between now and October, we can start to talk about partnership, rather than a Canadian variant, that would be very helpful.

Catherine McGuinness: We obviously hope to see financial services being covered in the final agreement in October. Frances is right that we cannot expect as much clarity or detail as we would like, but we certainly want to see that.

Frances O'Grady: The only thing I would add is that if we do not get progress on Northern Ireland by October we could be back to no deal.

The Chairman: Of course, provided that that is an explicit part of the withdrawal agreement. Owing to huge self-discipline, without any diminution in quality, we have reached our final line of questioning, which will conclude the evidence session. It looks at the issues that may not be resolvable by October and the withdrawal agreement plus the political statement—and the exit therefore—but will be issues that will remain to be resolved thereafter. Perhaps Baroness Armstrong will start on that.

Q19 **Baroness Armstrong of Hill Top:** Which issues will need to be resolved after we technically leave?

Catherine McGuinness: So, during the transition period?

Baroness Armstrong of Hill Top: Yes.

Catherine McGuinness: There will be a huge number of issues, but we will be very concerned to see that contract continuity issues and the question of data flows are tackled as quickly as possible. That will need to be resolved. The relationship that we can forge on regulatory frameworks going forward will also need to be addressed.

Carolyn Fairbairn: If you are a business, you are taking an incredibly practical lens on this and you have three questions. What rules will govern my European trade? Will there be tariffs and border checks? Can I employ the people I need? Those will be the three questions. It is going to be incredibly practical. There are 19,000 European directives that govern our trade at the moment. All of them will have to be answered during that transition period and we will have to have complete clarity about the customs process over time. That begs the question of how long that will take. It will come up on us very quickly after we have left.

Catherine McGuinness: A phenomenal amount of work will have to be done.

Frances O'Grady: The vast bulk of the work will have to be done at that point—the scope, the dispute mechanism, the enforcement. Again, as a realist, to get that sorted within the transition period looks like "Mission Impossible" without Tom Cruise.

Baroness Armstrong of Hill Top: Carolyn, you mentioned that businesses do not want to be in a position where they are not clear about the future. On the other hand, 20 months is a very short period to sort all these things out. Do you have any evidence, or any feel, that the Government are looking at working with unions or businesses on practical means of sorting some of these things?

Carolyn Fairbairn: This is exactly the kind of area where we need to get a partnership up and running on a regular, structured basis. I have had conversations, but they are sporadic.

Baroness Armstrong of Hill Top: We keep being told about smart borders, but as far as I can see there is no clear work going on on that.

Frances O'Grady: No. Planning for the worst should happen, whether we want that or not. Our unions are not aware of a single planning application that has gone in to a single port around the UK. It is worrying. I would have thought that all of us would be happy to get together, not in separate rooms but in the same room, to focus on some of the practical issues and resolve problems.

Catherine McGuinness: For example, there has been an offer from the lawyers: a Brexit law committee has been set up under the auspices of the MoJ and the lawyers have offered to help with the review that is going to be necessary of some of the statutory instruments that will have to come in under the withdrawal Bill. Taking advantage of that kind of offer from business and the professional services will be important, because there is so much work to be done.

Baroness Falkner of Margravine: Did you give a response to that offer?

Catherine McGuinness: We made it face to face in the Brexit law committee and the MoJ is looking at that.

The Chairman: We have the Secretary of State for DExEU coming next week, so we can round it up.

Q20 **Lord Selkirk of Douglas:** I have a question about inward investment. In the past, British Governments encouraged inward investment. Countries such as Japan deliberately invested in different parts of the United Kingdom on the grounds that that would give them a foothold for expanding their markets in Europe. I imagine that that kind of trading arrangement will contract, but other trading adaptations will no doubt come on to the agenda. Is there sufficient scope for the transitional arrangements to take account of that, so that the necessary changes can be made?

Carolyn Fairbairn: That is a good question. There is no doubt that our major inward investors are deeply concerned. The Japanese have spoken out vocally and we should believe them. They left Wales in force in the 1990s as a result of changes in policy; they move strategically and over the long term. On the question of our economy adapting, I am always struck by the fact that our businesses are hugely adaptable. China is very interested in investing in the UK, for example. But it will take time. Again, this goes back to the kind of question we could be examining together, in a spirit of partnership, around how we ensure that we have enough time. Japanese firms employ 190,000 people in this country. The impact on jobs is potentially very significant.

Catherine McGuinness: We have to expect that the pattern of investment will change. Taking China as an instance, we have a lot of financial institutions now from China in the City of London—more than 30. We also have a lot of investment in the fabric of the City, where a number of our buildings have been bought by Chinese investors. There is no sign of that investment in buildings and assets slowing down, but when I go and speak to the head offices of the institutions we have about their future plans, where they might have been thinking of putting their European base for business in London, they are reconsidering that, for obvious reasons. Until you know what the long-term future is, why invest in something that may not give you the access that you want?

Frances O'Grady: If you take something like the car industry—Nissan and the car industry more generally—Brexit is not the only factor. We know that there are lots of other pressures on the car industry, not least squeezed disposable income in the UK. But it is a big factor and we are conscious of it and keeping our ear to the ground, through our convenors, about investment decisions that are being taken. Yes, we may see one kind of investment replaced by another, but our question is always what kind of jobs that will create and where. Will they be in the parts of the country that need them and how do we manage the transition? We do not want to see good jobs replaced by low-paid, insecure ones.

The Chairman: We have one counterpart question left. I shall ask Lord Woolmer and Baroness Kennedy to put their respective parts of it together for your consideration: they do rather fit together.

Q21 **Lord Woolmer of Leeds:** You said that getting agreement by December 2020 is challenging. I think that that is a fair description. Assuming that the full details of the agreement were all hammered out by December 2020, would industry, business and government services be in a position to implement that agreed set of relationships? In other words, putting aside the Government's use or misuse of the phrase, the transition period is not actually an implementation period: that will come after implementation. If the transition leads to an agreement—in detail, not headlines—do you think that an implementation period is highly likely to be needed?

The Chairman: We are trying to round up now, so perhaps I can gloss on that also. It would be helpful if, in your response, you could say a bit about the moment when the UK becomes a third country after we have left, irrespective of the transition implementation period and the dynamic of the negotiations. As one of our Norwegian interlocutors said to us, we then become a lobbyist rather than a member. Perhaps Baroness Kennedy could wrap up on the specific industrial question, which I think is relevant to this.

Baroness Kennedy of The Shaws: I was interested that Carolyn Fairburn mentioned the equivalent organisations to the CBI in other parts of Europe, with which the CBI has close contact. Will our withdrawal from the European Union affect your ability to liaise and work with your equivalent organisations in the EU? This is also a question for Frances O'Grady. We have—I say this as a lawyer—been able to influence lots of things. If you were to read the tabloid press, you would think that all the law came rushing at us from Europe. We have been interactive and have played a huge role in the development of law across Europe. To what extent will those relationships be possible with, for example, the European Labour Authority? Will we be able to maintain that same proximity, or will we be no longer in the club, which will therefore affect the relationships?

The Chairman: Final wrap-up answers from each of you, please.

Carolyn Fairbairn: Let me start. BusinessEurope includes non-European members. Technically, we will still be a member and we will still absolutely try to have influence. Turkey is a member, for example. This leads back to the point that we want to be members of agencies. The more that we can create the connection, the better. Our BusinessEurope colleagues say, "We have hugely valued your input". We hear that from agencies across the European Union, which value our technical experience, our commitment to markets and all of that. So we will be there around that table. The more that we can create the other networks, the better. Finally, on the real implementation phase following transition, it is very likely that we will need something of that kind. It may not be the same for every sector. That is one of the questions that we will ask our members.

Frances O'Grady: I agree. If good progress has been made and there is a good spirit of co-operation, I could see some flexibility on that point. This is an important point: doing the deal is one half of the equation, but the other part is businesses and people having the chance to implement this. How the dynamic changes after 30 March is a good question. Again, my personal view is that Monsieur Barnier has been canny in agreeing that the UK can pursue, and indeed sign, deals with other countries. It will be interesting to see during that period how many deals we have signed—and who with—to deliver how much trade and how many jobs in the UK. I suspect that that will have a big impact on our bargaining power with the EU in that future relationship. Do we look like we are in a strong position, or is it a case of beggars can't be choosers? Finally, as I have said to my friends in the ETUC, there will be no TUCexit. We will continue as members of the ETUC. Ironically, we will still therefore, through the ETUC, be able to influence EU legislation.

Catherine McGuinness: Big business will have made the arrangements that it needs to make in order to serve its customers on day one post Brexit. How serious that is for us in jobs will depend on how much progress we have made and how much clarity we have given. I do not think that we can take what happens on day one as an indication of what will happen over the next five or 10 years. We need to watch that. On the question of how long this will take, I think that it will take a very long time to tie up all the loose ends. Speaking as a contract lawyer who has seen the implementation periods necessary for single regulations, I believe that it will take a long time. The bottom line is that we all need to be pragmatic rather than dogmatic. We need to try to find a sensible way through this that works for everybody but most particularly works for ordinary people who are impacted by the services that our sectors provide.

The Chairman: In concluding the evidence session, I thank you most warmly on behalf of the Committee. One senses around the Committee a warm approbation for the comprehensiveness and the insights that you have given us in your answers, as well as for the complementarity of it—I do not think that anyone came looking for difficulties between you, but they will not have found them if they did. It was useful to have that concerted view. We will, in our normal way, send you a transcript for correction of any factual issues. I hope that you will feel that this is a living relationship. You can come back to us in whatever way is most convenient and flexible as this rather interesting but difficult time matures. We have to keep on with it; we will continue to address it and I know that you will, too. Indeed, we wish you every luck in doing so. I thank you and conclude the formal evidence session.