



HOUSE OF LORDS

Select Committee on the European Union

Internal Market Sub-Committee

Corrected oral evidence: Future UK-EU transport arrangements

Thursday 13 September 2018

10.35 am

Watch the meeting

Members present: Lord Whitty (The Chairman); Lord Aberdare; Baroness Donaghy; Lord German; Lord Lansley; Baroness Noakes; Baroness Randerson; Lord Rees of Ludlow; Lord Robathan; Lord Russell of Liverpool; Lord Wigley.

Evidence Session No. 1

Heard in Public

Questions 1 - 8

Witnesses

[I](#): Alan Braithwaite, Chairman, Chartered Institute of Logistics and Transport, Freight and Logistics Policy Group; Andrew Meaney, Head of Transport Team, Oxera; Dr Matthew Niblett, Director, Independent Transport Commission.

Examination of witnesses

Alan Braithwaite, Andrew Meaney and Dr Matthew Niblett.

Q1 **The Chairman:** Welcome to our proceedings. There is slightly less extended participation on this side than was billed because our colleagues from the Commons Transport Committee, who were due to join us, have proved unable to do so. Nevertheless, this was our initiative and I hope you will put up with having only their Lordships here today rather than a full array of politicians from this Palace.

The Committee is looking at the consequences and options of Brexit for the internal market as a whole. One of the dimensions of that is the transport system. We are therefore looking at the preparations that industry and government are making for Brexit; what would be the optimum for your operations and what you are concerned about.

We know from the National Audit Office's work that the DfT is responsible for 18 workstreams. We also know that the DfT's technical notes in relation to no deal are imminent. You may have more information than us. They are not here yet. I was hoping that they might be by the time of this meeting, but they are not.

I have a general question about your view of the DfT's work, both as regards what it would be like from the Brexit deal and what the situation would be if there were no deal. Do you think the department has identified the right priorities? Has some work not been completed, and has your engagement with the Department for Transport and DExEU been sufficient in this run-up period?

When you answer, could you briefly introduce yourselves? If there is something you are burning to say, get it on the record early in case our questions do not cover it. Whatever your top lines are, you might start them from the opening question.

Alan Braithwaite: I have been in the transport and logistics sector for nearly 40 years. I am the chairman of the Chartered Institute of Logistics and Transport's freight and logistics policy forum and a member of its public policies committee.

Over nearly two years, we have been engaged with the Department for Transport in extensive discussions, which have widened gradually to include DExEU, the Treasury, HMRC and the Border Force co-ordination group. We have had four round tables with officials from those areas, and our engagement has gradually expanded over those four sessions. We are very pleased with the engagement we have had. We like to think that we coined the term "frictionless". We cannot actually prove it, but we would like to think that. Creating a frictionless trade process is probably our obsession because it is crucial to business supply chains.

Some of our concerns about frictionless labour rights and so on do not actually fall within the purview of the Department for Transport. It is a wider cross-cutting issue. In general, we were very comfortable with the position of the DfT that went into the Chequers paper as regards

fundamental principles. We are very supportive of the DfT. We do not think it is within the department's purview to grant all the things we are interested in, and we have been very happy to co-operate.

Andrew Meaney: I am a partner at Oxera. We are an economics consultancy, and I head the transport practice. We cover all modes of transport across Europe.

I have done quite a lot of work on Brexit, particularly in relation to the costs imposed on the haulage industry, ports and supply chains, and some of their implications. I have been looking at the costs associated with delays at borders and whether there are alternative solutions, which I think our session will come on to.

I have two specific points about the work the department is doing. The first is that it mentions transport infrastructure at borders. It is perhaps too late to talk about transport infrastructure at borders now. We need to be talking about operational solutions that can be implemented between now and 29 March next year.

The other point is that we should not lose sight of strategic thinking among the specific things that need to be delivered before 29 March. Whatever form of Brexit we get, how do we make sure that we make the most of it, and are we doing as much as we can from a transport perspective to achieve as much as we can after 29 March? Some of that will come through from the industrial strategy work, but I would want to make sure that there are links between what is happening on Brexit and what is happening under the auspices of the industrial strategy.

Dr Matthew Niblett: I am the director of the Independent Transport Commission, or the ITC, as we are better known. The ITC is a pan-transport research charity, which also covers land use. Our principal focus is on personal travel, but we retain an interest in freight issues and have done occasional work in that area.

We are principally engaged with the industry, and on that basis we conducted an extensive consultation last year that resulted in a paper that I believe some of you have seen. More recently, as regards the Department for Transport's work in this area, the ITC commissioners involved in the CILT round-table sessions noted that they have always been attended by senior departmental officials who were consistently interested, well directed and very clear about their preparations. Nonetheless, I think the National Audit Office report made a number of helpful recommendations to enable the department to improve its preparations, and we would expect the department to take those points on board.

The Chairman: Thank you very much. The NAO specifically underlined the need for more progress on IT systems, but of course it is somewhat difficult to finalise an IT system until you know what the arrangements at the borders and beyond are going to be. Do you feel that the department has made sufficient progress, given that the politics on the final deal are

still uncertain?

Dr Matthew Niblett: We have not seen any evidence to the contrary. Our understanding is that the department is working very hard to make sure that systems will be in place. As you say, in the event of no deal it is very difficult, even for the department, to predict exactly what the consequences will be.

The Chairman: Mr Braithwaite claimed ownership of the term “frictionless trade”. My mantra is that any trade journey with the customs union is probably not entirely frictionless. A lot of the focus has been on tariffs, but of course most frontiers, and most international trade, are subject to a lot of other things apart from the tax.

Let us assume that we get a zero-tariff field. The Chequers proposal refers to rules of origin, which may be more difficult to negotiate, but there are other administrative issues at most frontiers. Would each of you define what you mean by frictionless trade, and whether you are confident that we are going to achieve something like it?

Alan Braithwaite: Borders are not just about customs, VAT and all that stuff. They are about sanitary measures, health, people and a whole range of things. The discovery revealed to me as part of the working group was just how many different border agencies there are.

A major step forward has been the border co-ordination committee. One of our members is actually under NDAs working on that. We go back to our original recommendation from two years ago, after the vote. We said that, with technology, it was not beyond the wit of man to anticipate most of the conditions that would be necessary to start to build systems now, and that doing that in anticipation would be a powerful negotiating position.

We have seen that progress. What we cannot tell is just how well it is being done and how integrated those measures are. I will give you a little anecdote because it is one I particularly like. Imported Argentinian beef comes to Rotterdam and is then trucked through Dover. The reason was that the health inspections at one of the UK ports were somewhat more onerous and some consignments were rejected, whereas, it was discovered, there was a slightly more relaxed atmosphere in Rotterdam.

That is how such things work. That is now an established route of trade. The company has got itself well anchored and that is how it does business. If we get radical change or disruptive processes with officials at borders, that will not be frictionless, and that is the thing we are concerned about.

Andrew Meaney: It is worth defining frictionless from a number of angles, although of course I defer to Mr Braithwaite. It is not just a UK issue. The UK can do a lot, and some of you will have heard the Secretary of State on the radio this morning saying that the UK can do what it can, but we also need each member state to act in a particular way to

maintain frictionless movement of goods, when we are putting lorries and trains through borders on a daily basis, whether between Northern Ireland and the Republic or between the south-east of England and France and other ports of call.

The UK can do something about that, but it is particularly important to appeal to EU partners to make sure that frictionless trade is a daily occurrence after we have left the EU. There are 300 lorries an hour moving through the port of Dover and on to ferries. At the moment, only nine of those are subject to checks because they involve non-EU traffic.

There is a set of decisions to take about the extent to which we expand those checks. It is not just at Dover; it is at Holyhead, and at Cheriton for Eurotunnel. It is the same at similar points on the other side of the border. There are decisions to take about regulations. Will the food regulations and the forestry products regulations diverge or stay the same? At the moment, they will stay the same when we leave because of the withdrawal legislation that has already been put in place, but if the UK wants to do something different and wants to sign a free trade deal with another country where the regulations are different, at that point we will start to diverge.

There is a choice about the amount of enforcement. How many of the other 291 lorries an hour are you actually going to stop? How many will the UK stop, and how many will France, the Netherlands, et cetera, stop as well? If you move the dial slightly north of nine, you start to impose costs at the border because lorry drivers will have to be paid for longer hours. There is an inventory cost around the stuff in the back of those lorries hanging around and not getting to the supply chain, whether in the UK or overseas. Those costs start to mount up. Of course, as soon as you start checking more lorries, and your enforcement increases, those lorries start to build up, whether in Holyhead, on the M20 or somewhere around the UK.

Costs are associated with enforcement. If you start putting a bit of friction into the system, ultimately it costs the haulage industry, but it quickly feeds through to consumer prices.

Dr Matthew Niblett: I defer to my colleagues' expertise in this area. It was not a term that we coined, but our understanding of friction is very similar.

Q2 Baroness Noakes: You have just talked about systems and that was probably my question. Perhaps it is worth exploring the Department for Transport's readiness more generally, apart from systems. Can we test the views of our witnesses on whether there are areas where they feel the Department for Transport is not making the right preparations? This is going beyond systems; it is all the other things that might need to be done. Systems are certainly necessary for the new registration and certification requirements, but there are other aspects that need to be looked at.

Alan Braithwaite: We are fairly comfortable that the preparations for the Haulage Permits and Trailer Registration Act are in train. There is no evidence that the department is short of resource, but we cannot see the contingency planning, and we cannot see any of the scenario preparation around where border inspection points should be.

Perhaps I could raise the question of authorised economic operators, which we think is incredibly important. At the moment, there are about 600 companies in the UK compared with 5,000 in Germany. We are not ready. We have been advocating that our members go up this curve. There was a meeting yesterday at Cranfield University where a show of hands indicated that probably half of those attending were beginning to apply.

The point about authorised economic operators, or trusted traders, is embedded in the Chequers paper; if those people conform, you can move your border inspection points to anywhere you particularly choose, so if you need to intercept, you intercept a much smaller amount of traffic. We are very concerned that British industry has not grasped that this is an essential precondition for frictionless trade. We have asked the DfT, and indeed the other agencies we have been talking to, to promote it.

Baroness Noakes: Is the DfT not in the lead on that?

Alan Braithwaite: No.

Baroness Noakes: The DfT would not be taking the responsibility for delivering it.

The Chairman: It is not in the lead on systems.

Baroness Noakes: No, on authorised economic operators and trusted traders.

Alan Braithwaite: I am not totally sure.

Baroness Noakes: It will be HMRC.

Lord Lansley: With authorised economic operators the number of companies is significant, but it is worth bearing in mind the proportion of trade that is comprised of the activities of those companies. Do you have an estimate? I understood that we are talking about quite a high proportion of trade covered by those 600 companies.

Alan Braithwaite: I do not have that estimate.

Lord Lansley: We will pursue that. I thought it was about 70% or 80%.

Alan Braithwaite: Compared with many European countries, our trade, in terms of businesses controlling trade, is much more concentrated. That is a fact of life in UK business. None the less, my understanding is that if you have a chain of authorised economic operators, from transport companies to forwarders, retailers and manufacturers, it provides the

integrity that would, under an intelligence-led checking process, provide HMRC and the authorities with assurance.

Lord Lansley: Until now, the reason to do it has been largely to do with the security associated with the transfer of products, and it is quite a costly process. In the future, of course, more companies would have to do it because it is not just about security; it is about compliance. They have not really understood, at any stage yet, the circumstances they might move into that could give rise to the need to pay the cost and become an AEO.

Alan Braithwaite: That is one of the uncertainties that has delayed many businesses from planning.

Lord German: The AEO process is not without bureaucracy, is it? Apart from having to pay, it is not a short and quick fill-in of a double-sided sheet of A4.

Alan Braithwaite: I have never applied for it, Lord German, so I cannot tell you, but I am told there were very high levels of rejection last year—85%—on the initial applications. It is not an easy thing to do. The institute has tried to offer training and development so that we can help people to self-certify, but the take-up of that has been quite disappointing.

The Chairman: The trusted trader—the AEO status—is one dimension. The European Community licence, which a rather larger number of British companies hold, is the other dimension. I understand that up to 10,000 could already be involved in that system, which is, effectively, access to the totality of the European market through cabotage rights.

Baroness Noakes: I think you said you thought the preparations for the Haulage Permits and Trailer Registration Act were—

Alan Braithwaite: They are proceeding. As far as we are concerned as an institute, we believe that is going in the right direction. I am not sure I am tracking with you; I apologise. I think you took me out of the place I thought I was in.

The Chairman: There is a difference between having 600 AEO operators, which are the big companies, essentially, and those that already have a Community licence of some sort, which I understand is a much larger figure.

Alan Braithwaite: It may well be, but I am not aware of that.

Baroness Randerson: The concern really is about small companies that currently do not have the capacity because they have just been trading with other EU nations, so they have not needed to go through major preparations. You said earlier on, Mr Braithwaite, that 80% or 50% of the people in the room were preparing, but they were the people in the room.

Do you have specific concerns about small companies and small

operators? Do you have any idea how they are being reached so that they can be upskilled for what they will have to deal with?

Alan Braithwaite: First, you are right; bigger businesses will be on to it faster. Secondly, the levels of extra bureaucracy, if there are any, will impact on small businesses disproportionately. I have no information on that. One of my colleagues on the Public Policy Committee is also a senior member of the FSB. She is very concerned about the implications for small businesses in a whole range of scenarios of that sort, but I have no specific information in that area.

The Chairman: There has been substantial progress. Baroness Randerson and I dealt with the road haulage Bill, particularly Baroness Randerson who was on the Front Bench. At that point, it appeared that preparations were not far advanced, but we are six months on and you seem reasonably confident that things have moved significantly.

Alan Braithwaite: We have a transition period, or we may have a transition period.

The Chairman: Indeed. The next area relates to the port of Dover in particular.

Q3

Lord German: Mr Meaney, I would like to pick up your comment at the outset that there were many operational solutions that we are still awaiting. Can I pick on Operation Brock and the port of Dover? You might want to consider other parts of the country too. There are 300 truck movements an hour through Dover, or 7,200 a day, and 2,000 a day at Holyhead and 500 at Fishguard. The list goes on.

Do you foresee there being a problem? What do we know about the situation with Operation Brock, and is there anything more that we could press the Government to do?

Andrew Meaney: For those who are unaware, the easterly route into Dover is on the M2/A2, and the westerly route, which involves the M20, goes past Cheriton, the entrance to the Channel Tunnel, and then further round into Dover. Operation Brock is a contraflow system on the M20 on the westerly piece of that infrastructure.

I will talk about south-east England first and then maybe make similar comments for elsewhere. Although special attention is being paid to the M20 solution, there is, as you say, an awful lot of traffic performing an important role from an economic perspective that is also potentially subject to slow-downs and a loss of frictionlessness—if it is a thing, I coined that one. We need to make sure that there are similar arrangements for other ports.

Operation Brock is a solution that Highways England consulted on in relation to the M20. Its website says that it has received comments. It will put out some more detail in the winter, when it will consult again on options. It is a largely operational solution to hold traffic on the M20 while

still allowing some traffic to move around the lorries that are being held there.

From my perspective as an economist, both the Channel Tunnel and the ferries at Dover should be running as full as possible, so that you are not holding stuff on the M20 that could be on a ferry or in a train. Whatever the operational solution, it needs to make sure that you are letting stuff flow, subject to the French borders being open and there not being lots of checks there. That must be the prime objective for whatever the solution is.

There are some further issues around making sure that whatever infrastructure operational solution you put in place does not favour one operation over the other. Dover is further to the east. If you put the solution on the M20, there is a risk of favouring Eurotunnel. Equally, if you are doing something on the M2/A2 side, you favour Eurotunnel in terms of being able to get to one of those two locations as easily as possible.

Whatever ends up being put in place—and we do not have much time left—it needs to fulfil those two criteria, so that it actually works, if you need it to work. If we maintain something similar on 30 March, people will be able to turn up and go on the trains and ferries.

Whatever you put in place on the M20, you need to make sure that you are able to keep frictionless movement going in and around other ports as well. Do not spend excessive amounts of time coming up with a solution for the south-east. Make sure you have solutions in place, should you need them, for other ports and locations.

Lord German: The Government say that Operation Brock will be in place by 29 March. You have just mentioned other places. Is it your view that this project will be in place, and can be in place, by that time?

Andrew Meaney: All we can say is that we know where the project has got to from a Highways England perspective. A lot of operational detail will need to be finalised between now and 29 March, let alone putting in the actual contraflow infrastructure and signage, and training the people who will operate it and make it all work. You need a substantial information exercise for people, both lorries coming into the UK, from Poland for example, and lorries going out of the UK on that route. There are a lot of things that need to be put in place before then.

Lord Wigley: Are the comments you made in relation to the likelihood of the system being in place by 29 March equally applicable to places such as Holyhead? You are obviously aware of the very high volume of traffic through Holyhead. It is an area that has not in the past had the sort of problems that Dover has had on occasions. Is this happening?

Andrew Meaney: I am not aware of a specific scheme to deal with Holyhead. That is probably in the purview of the Welsh Assembly, but I may be wrong.

Lord Wigley: On an associated point, you said that we had to be careful that we did not differentiate between modes of transport. Is there likely to be pressure for differentiation with regard to the goods being carried? For example, if mussels are being carried from north Wales to Paris and have to be there in 14 hours, the consignment is useless if there is a delay. There are "just in time" things that are very useful for industry, and other things that do not have time criteria. Is any differentiation likely?

Andrew Meaney: With the volume of traffic coming through, it is difficult to say, "You can go through, but you cannot go through", on the basis of the HGV that is coming through. I do not think there is an operational solution that can distinguish the value of what is in the back. You are applying a blanket solution.

What may happen, because logistics is very good at changing traffic patterns, is that certain types of freight, should they need to, may move to alternative forms of getting the mussels to Paris on time. There is a good reason why freight goes through south-east England at the moment, which is that even if there is a delay it is still the quickest way of getting through. It would need a fairly major change at that part of the border relative to another part of the border for people to take different decisions.

Lord Rees of Ludlow: Are there going to be associated problems and delays at the other end, on the mainland European side of the borders?

Andrew Meaney: Yes, absolutely.

Lord Rees of Ludlow: What is being done about them?

Andrew Meaney: We know that this is an issue that ports in mainland Europe are equally concerned about. They also faced issues in summer 2015 when there were delays, exclusively on the Calais side. That is why it is important, to maintain frictionless trade, to keep border traffic moving freely on the UK side, and on the mainland European side. There will be the same concerns as in the UK about queues and inability to access markets.

Lord Robathan: Lord Rees has asked almost exactly my question, but I have one further point. Do you know what proportion of lorries going either way across the Channel are UK registered, and what proportion are EU registered? Perhaps I ought to know, but I do not.

Alan Braithwaite: It is at least 80% foreign registered; in the samples we have seen, it can be as high as 90%. The implication of that is that between 16,000 and 20,000 foreign trucks are operating in the UK at any one time. In size range, around 15% to 20% of the entire UK registered capacity is actually operating outside.

One of our concerns, and expectations, is that if there are very significant delays on the short sea crossing, the channel crossing, by whatever route, traffic will switch to unaccompanied modes, either trailer

unaccompanied or multimodal containers. Investments are being made in Tilbury in anticipation of that—about 800,000 units, so it is substantial investment. We fully expect that to happen, because the cost of the driver sitting around has huge knock-on implications, in that that haulage capacity does not exist in the UK. It is a very substantial upgrade on the 40 to 44-tonne sector.

Between 30% and 50% of everything moving through Dover by whatever means is food. It is very significant. The food will be perishable. The other operators have much more latitude to switch, and, if the delays are unconscionable, they will, and that will then be a threat to Dover's capacity.

Baroness Randerson: It is a threat to the Channel Tunnel as well.

Alan Braithwaite: Yes, and to the Channel Tunnel. Correct.

Q4 **Baroness Randerson:** My question fits very well with where we are in this discussion. ABP [Associated British Ports] has argued for the use of other ports. The statistic you have just given us indicates that this is not by any means an issue just of the capacity of our ports and our roads leading to ports. It is actually about the capacity of the roads and the ports surrounding Britain as a whole. Has any work been done, to your knowledge, to look at the knock-on impacts in Europe, and whether the proposed solutions we are looking at in Britain are realistic from the point of view of the hauliers and authorities in Europe who will be dealing with the changed pattern of trade?

Andrew Meaney: I am not aware of any work that has gone on in mainland Europe. We are certainly aware that the major ports are gearing up to understand the implications and to plan for this, but I cannot point you to specific studies.

I have a couple of points. The European Commission is doing what it calls a "realignment" of its North Sea to the Mediterranean core network, because the UK is part of that corridor. As 80% of the Irish road freight that ends up in mainland Europe comes through the UK, via Holyhead and out through south-east England, alternatives are being sought to having that freight potentially checked four times, depending on the regulatory divergence enforcement I have talked about already.

There is potential for those movements to take place directly from Dublin, or Dún Laoghaire, to somewhere; there are discussions about whether it should be French, Belgian or Dutch ports. There is a possibility of diversion depending on the extent to which the ports and road infrastructure in the UK is sufficiently well designed and able to maintain frictionless trade. Clearly, if we maintain frictionless trade, those efforts are not necessary because things are already going as quickly and cheaply as they can at the moment.

The other point about potentially taking trade out of the short route across the channel is that it goes that way for a reason. It is the cheapest and quickest way at the moment; it supports supply chains and enables

perishables to be moved quickly. You can put this stuff through other ports, but it will be more expensive for port operators and hauliers; it will be more expensive for the road infrastructure, whether in the UK or mainland Europe, and those costs will find their way into the supply chain and consumers' pockets. Even if some of this stuff moves—because, whatever happens, it is worth moving—you will still have to deal with the vast majority of stuff going through the tunnel and Dover. It is really important to remember that.

The Chairman: I have a general question that relates partly to the preparation at ports on the other side. When Baroness Noakes and I and members of another committee were in Dover, we were told that there were reasonably good relations with Calais and Dunkirk, and that they too were beginning to prepare, but they would need time. In answer to an earlier question on permits, you said we had the transition or implementation period. Does that mean by implication that, if there was no deal that incorporated the transition period, there would be a bigger problem than if the changeover took place at the end of 2020?

Alan Braithwaite: If there was any sort of hard stop, it would be horrible. I went to a very interesting meeting last week at the London Business School where Linda Yueh spoke. She is advising the Treasury. I do not think I am revealing any confidence by saying that she referred to three scenarios: the good, the bad and the ugly. The good is some sort of facilitated trade agreement; the bad is WTO; and the ugly is some sort of horrible space in the middle. That is what you would get, and then there would be all sorts of interesting behaviours.

Baroness Noakes: What in particular would be horrible?

Alan Braithwaite: Uncertainty breeds behaviours that breed enforcement of regulation, stuff happening on the ground and delays. That is how I see it. That is what happens in the real world.

Andrew Meaney: No deal creates a set of choices on the UK side to let stuff move through at the current rate of enforcement and checking. You are then asking each member state to apply the same principle day to day, hour to hour. As we know, it does not take much grit to put a lot of friction into those processes.

The Chairman: This is supposed to be a multimodal discussion, so can we move briefly to the other modes?

Q5 **Baroness Donaghy:** There are immediate concerns about the UK maritime sector relating to customs and capacity, but what opportunities and challenges does Brexit present for the maritime sector in the medium to long term? What kind of relationship should the UK seek to have with the European Maritime Safety Agency? Do any existing third-country arrangements provide a useful precedent?

Dr Matthew Niblett: As regards opportunities, it is difficult until the final trade package has been determined to predict with any certainty what the impacts will be, but we need to remember that the UK's maritime

sector is structurally different from ports on the continent. Our ports are less regulated and they are privately financed. Much will depend on the ability of the UK Government to deregulate, where appropriate, and resist the temptation to introduce regulations that prevent ports from operating as efficiently as possible.

The contributions to our consultation suggest that the long-term structural differences could release our port owners to be very responsive to supply chain changes. That could become more influential unless there is an expected move by the EU to reduce regulation across the continent. New trade routes could help certain ports on the west or north-east coast of the UK that at the moment may not be operating to their full potential.

Andrew Meaney: Oxera worked on a project for the Department for Transport at the time of the maritime growth study in late 2015. Despite the time that has elapsed since then, a lot of the issues that arose and the opportunities that we and the maritime growth study identified are still relevant. It is something of a Cinderella sector, in that there is an internationally important cluster on the maritime side in London fed by UK ports and shipping companies around the coast, and through international markets. That is perhaps less well known.

From an employment perspective, a lot of opportunities will be created through some of the supported training packages for people to become seafarers. They will feed into the sector, whether ports or shipping around the country, or that cluster, over a long time. None of that really goes away with Brexit; the IMO is still based in London.

There are fairly similar opportunities to those we saw three years ago. It is about making sure there is an attractive fiscal and regulatory environment, and perhaps taking Cinderella to the ball by promoting the sector, whether from a government or an industry perspective, so that it is seen as an attractive working environment and somewhere to develop skills, perhaps as an alternative to the normal route, whether that is an apprenticeship or a degree course. There are some really interesting things from the work on the maritime growth study that should make sure that we are looking at the long term for the maritime sector.

Alan Braithwaite: The WTO scenario presents a significant opportunity because supply chains will switch source, and there will be an opportunity to straighten out what is called the "Rotterdam effect". I do not know whether you are familiar with that. The House of Commons Library estimates that it is about 5%. The work we have done suggests that it could easily be 10% to 15%, so an uptick in container volume from non-EU sources is potentially available.

The other thing we would like considered is the introduction of free ports and those sorts of zones as a business opportunity in a deregulated world. The CILT would not want to see adherence to the European Union port regulations, because our structure is so different, as has already been observed.

Baroness Donaghy: What kind of relationship should the UK seek with the European Maritime Safety Agency for the future?

Alan Braithwaite: I cannot answer that question.

Dr Matthew Niblett: We need to remember that the European Maritime Safety Agency was established after the sinking of the "Erika". It has helped to improve safety across the continent as well as preventing polluting ships from causing environmental damage.

I think the intention at the moment, under the withdrawal Bill, is to maintain current EU regulations on that point. That is a sensible outcome as it will provide the least disruption to commercial and operational concerns. Assuming that there is a transition period, it will include the preservation of existing EU agency membership, which again is welcome for the same reason of continued stability.

The Chairman: The port sector has railed against some of the EU regulations. The ports are mostly privately owned, as distinct from the European situation, and I can see that greater freedom may well help with some diversion of global trade, but for operators who are simply plying across the channel or the North Sea, there has to be some congruence of regulation at both ends of the chain, does there not? We will still need some degree of recognition that there are parallel, if not completely identical, forms of regulation for that trade.

Alan Braithwaite: By and large, we would advocate regulatory alliance in most cases, but our port structure is internal to how we operate the ports. It does not militate against safety, does it?

The Chairman: No.

Lord Lansley: There are third-country arrangements with the European Maritime Safety Agency in any case, are there not, in order for shipping using EU ports to comply with EU regulations? Ports services regulation is not about ships visiting the European Union; it is about how we manage the governance structure of British ports. That is where the divergence might lie, so it does not impact on trade as such.

Andrew Meaney: That is correct.

Q6 **Lord Lansley:** Could I turn to rail? Over the course of the last few weeks there has been some coverage of Network Rail talking about the cost benefits that might accrue to it of divergence from some of the EU rail regulations. We might seek a bit more information from rail-related bodies about that.

From your point of view, is that likely to impact adversely on any aspect of our practical trade with the EU, or is it purely an issue of governance? In any case, should our objective be alignment? Should we have a common rulebook with the EU on rail regulation, or should we be thinking about trying to shift to an international set of rail standards since such, to some extent, exist?

Andrew Meaney: It is important to distinguish interoperability. Does the signalling system on your train work on one side of the channel and still work on the other side? Perhaps we will come on to some of the market regulation elements as to whether you should be vertically separated, integrated, et cetera. Dealing with the first of those, where train routes traverse borders there is pretty limited scope for differences in standards. That is primarily around HS1 and the Channel Tunnel, but we should not forget the line from Belfast to Dublin.

On the mid-Wales line, for example, you might want to change technical standards relative to those that prevail in mainland Europe. That is fine if we are talking about something very specific to a geographical location. We do not want to start moving away on things such as signalling standards. All that does is create difficulty in buying from the global market, because, whatever the widget you need to buy, you suddenly need to make changes to it to apply it to the UK. I am sure Network Rail is thinking about that as part of what it is doing, and it will diverge from European technical standards only where it will be beneficial and will not create a small market where the UK ends up paying more.

Lord Lansley: From your knowledge of these things, did you regard Network Rail's comment as something the rail industry would be likely to embrace and say, "This will reduce costs, which will be of benefit to us, and we can't see any prejudice to safety or interoperability"?

Andrew Meaney: You need interoperability only where things need to interoperate. What the industry will be looking for from Network Rail and standard-setters in the industry is that they think through all the costs and benefits. Where divergence is worth doing, by all means do it, but make sure that some of the unintended consequences I have mentioned do not emerge.

Dr Matthew Niblett: Any form of transition to new interoperability standards will be complicated because railway projects always have a very long lead time, and existing projects will have incorporated the application of those TSIs [technical specifications for interoperability], as they are called. As Andrew mentioned, there are considerations on both sides.

Presumably, Network Rail may be thinking about examples where very strict compliance with the standards has led to increased costs, such as the electrification of the line between Glasgow and Edinburgh, where apparently a derogation was needed but not obtained. There may also be scope for saving some costs on projects, but any legislation will need to be amended to establish a process for that without creating substantially more processes and bodies than exist at the moment.

On the other side of the equation, we need to remember a point that was emphasised by a number of responders to our consultation: as a result of these developments and their adoption by manufacturers, the UK has widened the market for products incorporating the standards around the world. If British manufacturers cease to build to the TSIs outlined by the

EU, the international market for our products could be smaller by excluding the EU and other markets.

We also need to remember that the UK industry has been very active in the development of the EU TSIs, so any exclusion from the standards development process will affect individual careers and organisations and remove our influence on how those develop.

The Chairman: Is the implication of what you say that in general the European TSIs are also global?

Dr Matthew Niblett: They will be taken into account in the process of determination because it is such an enormous market.

Q7 **Lord Aberdare:** Another dimension of the EU railway package is the governance and market pillar. Do you see any case for UK divergence from that? Can we look at moving away from the one-size-fits-all approach and maybe even consider the possibility of companies owning both track and trains, and having a more diverse marketplace and ownership structure? Do you have any thoughts on that issue?

Andrew Meaney: There are opportunities to investigate changes. Over time, there has been privatisation in Britain and separation of track, ticket retailing, train operations and rolling stock ownership. We were largely consistent with European legislation at the time, but European legislation has followed a similar path through other infrastructure sectors, looking for parts of the value chain that can be opened up to competition. Whether it is for the market, as in rail franchising, or in the market, as with rail freight operations, opening up to competition is generally seen as a good thing.

If you are taking the opportunity of no longer being in the EU to reassess that, you should make sure you know what you want, and what your objectives are, before you make any change. That will include minor changes to the status quo, or more significant changes to common ownership of track and train, and, potentially, train operations.

One of the things to look out for under that common ownership is that typically you will always have long-distance services, whether passenger or freight. You want to make sure that, whoever owns a bit of railway, whenever someone transitions on to that bit of railway, they do it on equal terms. We have very strong rail regulation and competition law in this country that can facilitate non-discriminatory behaviour.

There are other things you would need to consider. Does the new arrangement you are looking at make things better for the passenger and the freight customer? That is probably the main priority. Does it make it easier to fund or finance the infrastructure? What does it do to the balance of risk? This week, the Transport Committee was talking about the east coast franchise, where a bid took on a lot of risk and the department's review of that bid did not necessarily look at all of the stress tests it could have done.

To an extent, that is an issue under rail franchising. If you add the infrastructure to that business, you are not taking away revenue risk and you are adding cost risk. You need to make sure that the market will want the structure you are creating. That may require less risk transfer on the revenue side while opening up the opportunity for different models.

A final very important point is that Network Rail has a portfolio of assets at the moment. Whether it is the collapse of a sea wall in Dawlish, or between Dover and Folkestone, a track collapse in Cumbria or landslides between Banbury and Leamington, Network Rail manages those risks as a portfolio and is able to draw in money from other parts of the network to fix things in an emergency. The more you regionalise things, the more your budget for a particular area becomes exposed to major infrastructure risks that become quite difficult to manage. In the British Rail era, if something like that happened, typically it was just left; it was not repaired, fundamentally because the funding was not there to put the services back.

To go back to my original point, there is a range of different things we might be able to do from a market design and market structure perspective, but we should make sure that we understand what we are trying to achieve before we reach for one of them.

Lord Aberdare: One of the criteria you mentioned was passenger service. We have not heard much about passengers. Maybe Dr Niblett would like to comment on that as well. We talked about project Brock for lorries, but will we need a project Brock for passengers lining up on the M20 waiting their turn? Could you say something about that?

Dr Matthew Niblett: The UK already has one of the most liberalised rail markets in Europe. Since we have been operating a vertically separated and regulated railway, after the Railways Act 1993, we have seen massive growth in passenger numbers on the railway. We at the ITC are publishing some research later this year that will look at the factors that have been driving that growth and whether they are intrinsic or extrinsic to the rail industry. It is likely that increased passenger choice has had a number of benefits and has had a positive impact on rail passenger growth.

On your question about what divergence from the governance and market pillar means for passengers, we agree with Andrew that government will need detailed advice, analysis and consultation before embarking on very radical reform to the existing arrangements. We noted that the Chequers White Paper suggested that international operations through the Channel Tunnel will need to be based on bilateral agreements. Given the current very high proportion of journeys between London and Paris by rail rather than by air, we need to be aware that any change to that position would have significant impacts on passenger fares, as well as environmental impacts from having to use other modes.

We have not talked much about the impact of personal checks. I gather that a new paper was produced today by the Government on passports and what that might mean. I confess that I have not looked at it yet, but we will be very interested in exploring it further to see what the implications might be for passenger movements.

Alan Braithwaite: I am not a rail expert, but I took some advice from colleagues. One of the concerns about reverticalisation—if that is the correct word—of the railways would be that rail freight might lose out to powerful passenger interests. We have a particular passion for trying to increase the volume of goods moved by rail freight, because it has a whole range of societal and environmental benefits. We see a strategic threat there from the organisational consequences of compartmentalisation. Other than that, I agree with everything Matthew and Andrew said.

The Chairman: We are coming towards the end of our time. Can we go back to roads and look at driving licences?

Q8 **Baroness Randerson:** Driver licensing is worth talking about in two respects. One relates to haulage and the other to ordinary motorists. You may have noticed information in the news today about whether or not we would need an international driving licence. It will be interesting to hear from the Government's paper published today what their view is and what they are planning.

Going back to 2014, the review of the balance of competences felt that the EU had overreached itself in its regulation of driver licensing and testing, yet road safety experts cite the importance of being able to rely on high standards. With which of those two views do you agree? If we become a third country, does the EU have any agreements with third countries on driver licensing and testing? An awful lot of EU drivers must drive through Switzerland, for example. Do they have agreements there?

The Chairman: There seems to be some reluctance to answer.

Baroness Randerson: No one wants to answer.

Alan Braithwaite: I do not think there are any restrictions on driving through Switzerland. You have to buy a carnet to move through, but that is a road permit. The institute responded to the balance of competences consultation in 2014, and I was able to find it, which I was rather pleased about. By and large, we have benefited from alignment.

To go back to the number of foreign trucks operating here, there are safety concerns about that, but it is a question of training and competence elsewhere. There is a real dilemma because it would take capacity out if we chose to do something, and it would increase friction, so it is a bit of a thorny one.

Dr Matthew Niblett: We need to remember that the purpose of the legislation was to improve harmonisation of movements across the whole continent. In so doing, we have benefited from the increased efficiency of

those movements and from improved safety in other European countries, where their standards have been pulled up by the EU's regulation on this issue.

We feel that the existence of an EU licence has been beneficial to us and has helped to improve safety and the efficiency of travel. Any divergence will obviously put that recognition at risk. In the case of Switzerland, we need to remember that, although it is not an EEA member, it harmonises its legislation on this issue totally with the EU, so we would probably have to do the same if we were to enjoy the same level of integration on licensing.

The Chairman: You are saying that a reasonably common system of licensing is helpful in practical terms, even though there might be individual criticisms about how it is enforced, or about its specifics.

As there are no further questions from my colleagues on any of the modes we have covered today, I will ask you again about your expectations from the Department for Transport's preparations for no deal—in other words, things that will come into play in six months' time as distinct from those that will require a bit longer. What are you expecting from the Department for Transport's technical notes on this? It would be helpful for us to know, because we will be looking out for them. Is there anything else you want to add before we conclude the session?

Alan Braithwaite: I am waiting with rapt attention for the technical notes because they will tell us where our messages have landed and where they have not. Clearly, much of what you have covered today will be informed by where they land. I can only repeat that the DfT position paper, which the department shared with us in July and that went into Chequers, was utterly reasonable.

The Chairman: Chequers is seeking a deal. These technical notes are supposed to address the situation where we have no deal.

Andrew Meaney: I am not going to try to predict what the department is doing, or what it is about to release. My perspective on no deal is that we have to remember that costs that are imposed on the transport system in the context of no deal will find their way pretty quickly into the pockets of consumers. That is something we need to bear in mind. This stuff is moving for a reason; people want to buy and sell it, and doing that at more cost means that generally there will be economic consequences.

Dr Matthew Niblett: I second that. We also need to remember, in relation to contingency planning, that some of these issues are not wholly in the gift of the Department for Transport but will be dependent on decisions made elsewhere, so we would encourage robust interdepartmental consultation and planning on these issues as soon as possible.

Andrew Meaney: And overseas. The UK Government can do what they can, but we need reciprocity to deal with these issues.

The Chairman: Are there any other issues, or is there anything that you think we should pay attention to in the coming weeks?

Andrew Meaney: There is nothing further.

The Chairman: Thank you very much for this session. You are aware that we will produce a transcript that you can check and correct. If anything occurs to you, or there are any developments you think we should be aware of in the next few weeks, we are very open to further written evidence, in particular in reaction to anything that jumps off the page at you from the DfT's technical notes, which we expect very shortly.

This has helped us in our deliberations. It is clear that the relationship with the Department for Transport is quite good. Long may it be that way, but it requires others to play their part. Thank you very much indeed.