

Exiting the European Union Committee

Oral evidence: The progress of the UK's negotiations on EU withdrawal, HC 372

Wednesday 10 October 2018

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Members present: Hilary Benn (Chair); Richard Graham; Peter Grant; Andrea Jenkyns; Stephen Kinnock; Jeremy Lefroy; Pat McFadden; Craig Mackinlay; Seema Malhotra; Jacob Rees-Mogg; Emma Reynolds; Stephen Timms.

Questions 2771 – 2847

Witnesses

I: Andrew Opie, Director of Food and Sustainability, British Retail Consortium; Martin McTague, Policy and Advocacy Chair, Federation of Small Businesses; Richard Burnett, Chief Executive, Road Haulage Association; Mike Thompson, Chief Executive, Association of the British Pharmaceutical Industry.

Examination of witnesses

Witnesses: Andrew Opie, Martin McTague, Richard Burnett and Mike Thompson.

Q2771 Chair: On behalf of the Committee, can I thank our witnesses for giving up your valuable time to appear before us this afternoon? Can I introduce Andrew Opie, director of food and sustainability at the British Retail Consortium, Martin McTague, policy and advocacy chair from the Federation of Small Businesses, Richard Burnett, chief executive of the Road Haulage Association, and Mike Thompson, chief executive of the Association of the British Pharmaceutical Industry? You are all very welcome. We have a lot of ground, as ever in this Committee, to cover so, especially as there are four of you on the panel, as succinct answers as possible would be really helpful. Do not feel under an absolute obligation for all four of you to answer every question. Some may be directed to individuals amongst you depending on the topic.

We are focusing on contingency planning and no deal this afternoon.



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Can I ask each of you to tell us the thing that worries you most about no deal and the planning for that possibility?

Andrew Opie: The biggest concern for us on behalf of supermarkets is getting the same quality, affordable food on the shelves on 30 March. It is a particularly bad time of year in terms of managing our logistics because that is the time of year when we are importing more because we are not producing so much seasonally here in the UK. It is also two weeks from Easter which is a pretty peak time for consumers and for retailers to stock up. It is a very difficult time. We are very concerned about getting vehicles across the border, particularly through Calais, which is a real pinch-point for us.

The other point that is of real concern to us is we do not know yet what is going to happen in terms of tariffs and whether they will be levied and what impact that would have on the food that we sell.

Q2772 **Chair:** At the moment it is the delays on the lorries that is your worry.

Andrew Opie: That is a real concern for us because at that time we are probably near enough at peak period for importing fresh produce before we switch over to UK. If you think of some of these products, they are things like salad, lettuces, tomatoes and soft fruit. These are very perishable things that really need to move 24/7 quickly across the border to the stores.

Martin McTague: The single thing we are most worried about is the lack of transition arrangements. It is true to say that when we have looked at groups of small businesses over the time since the referendum there has been progressively a tendency to tune out of the whole debate. There was a heightened level of interest in the early days and, as this process has gone on and seemed more and more obscure, they have tuned out. We recently tried to test the level of engagement with this process. We found that 86% of small businesses had made no preparations at all for a no-deal Brexit.

Q2773 **Chair:** Is that because they do not think it is going to happen or they do not know what to do?

Martin McTague: I think it is the latter. They do not know what to do. One guy put it to me quite well. He said, "It is a bit like being answered to prepare for a move of your business to Narnia. What is it like? I do not know what this place is like. How do I make preparations for it?" Some people say it is good; some people say it is not so good. One thing is for sure: they do not know what to do. When they know clearly what to do our worry is if it is no deal it will be far too close to that cliff edge.

Q2774 **Chair:** Has the publication of the technical notices over the summer—the three groups that they have been brought out in—assisted at all?



Martin McTague: When we looked at the technical notices—and we spent the time going through them line by line—what we found was that they were almost impenetrable for the average small business. What we have done is produced a hub on our website that is completely open to any small business, which puts it in pretty understandable terms so that any small business can determine for itself what it thinks the impact of that will be.

Q2775 **Chair:** Do you represent any small businesses in Northern Ireland?

Martin McTague: Yes, we do. We cover the whole of the UK.

Q2776 **Chair:** There was that one particular notice that said, “If you are not quite sure, give the Irish Government a ring”. I am not quite sure how you would go about that and maybe your members are in the same position.

Martin McTague: I do not think we included that in our hub.

Richard Burnett: From my perspective and our members’ perspective, the biggest worry is the amount of time left between now and potentially a no deal. We are talking 170 days, or five and a half months; that is no time. We have no clarity in terms of what the customs process may be in terms of a no deal. In fact, if there was a deal, we have no clarity at this point in time.

The biggest concern is about what it is going to do to borders and how it is it going to potentially slow goods down that are coming through the borders. The biggest concern is probably from the UK back to the EU, particularly in Calais, going back through France. We have no clarity again from the EU or the French in terms of what they are likely to do around a customs process. That is a big concern and is clearly going to have a big impact on the UK supply chain. The volume that comes from Europe primes the pump. It is volume that is going into national distribution centres, regional distribution centres and manufacturers, and if that volume drops because of delays, that has a knock-on effect in terms of the amount of volume that we distribute as an industry. We are a volume-based industry that reacts to the volume that comes in and what is being delivered. Access to the market is also a really big issue. Again, from our perspective, as soon as we come out of the EU we forfeit our right to what is called the community licence, which allows British hauliers access to the EU. The only contingency that we have at this point in time are ECMT permits. Those are capped and quota-ed. There are 1,224 of those ECMT permits. There are 38,000 trucks that are licensed to go to the EU. In the event of a no deal, there is a big gap in the ability to get to Europe.

Q2777 **Chair:** Who issues those permits?

Richard Burnett: They are issued by the European committee for transport Ministers, and they are capped and quota-ed by that



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Commission. They cover 43 states, including the 28 EU states. The only other fall-back position that we have are bilateral agreements or bilateral permits and we understand that there are side negotiations that are happening that the EU have tried to close off because that is undermining the overall negotiations. Again, we have no clarity, because nothing has been agreed, as to whether or not we can fall back on bilateral permits that will allow access back to the EU.

That is a big issue and then there is the supply of labour. We have a 55,000-driver shortage at the moment. That is getting worse as we speak. Statements have been made by Government around capping the skills level for migrant labour. We have 60,000 EU nationals driving in the UK with HGV licences and 120,000 working in warehouses. We are starting to see them go back again. The first tranche we started to see go back because of the exchange rate changes, but we are now seeing that labour go back and we are having a supply issue now even ahead of our peak for this year. Those are the issues.

Q2778 Chair: How would you characterise the nature and extent of the discussion between your industry and the Government about all of these very practical questions?

Richard Burnett: It has been a painful process. We have had to push really hard over the last year. October last year was the first time that we really started to engage and raise these issues. It was not really until the early part of this year—maybe February or March—that we had the first detailed conversations to say, “You are not engaging enough with business to understand what the practical handshakes are that would need to be undertaken at that point in time in order to make sure that we are protecting the flow of goods”.

Q2779 Chair: Let us take a couple of practical examples. One is the potential for queues on the M20, which it would appear the Government now get is a possibility, because they have reportedly been making contingency arrangements for how to look after drivers who are stuck on the M20 in long queues. You think that is a possibility, given what Mr Opie was saying earlier about delays.

Richard Burnett: Yes.

Q2780 Chair: You were talking about stuff coming in but then there is also how well French customs deal with stuff from Britain going out.

Richard Burnett: Yes.

Q2781 Chair: That is a concern for you, is it?

Richard Burnett: It is a real concern. This is not about scaremongering. This is about the reality if we see delays and if we see a slowing of volume because vehicles are being checked through a custom process. Even if you look at Switzerland this week, there was a 12-mile queue on a Monday morning trying to get from Basel



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into Germany. Regarding the scale and volume that we are going to be seeing going back, there are 11,000 trucks per day that go through the Calais strait, and usually about 5,000 or 6,000 going back. It will not take too long before those vehicles are being checked in some way for a queue to start forming on a scale that we have not seen.

Q2782 Chair: Did it take a long time for the Government to clock that this was a real problem in the event of no deal?

Richard Burnett: It has almost been this year that they have really started to wake up to that. From our perspective, the real realisation was probably in August, when some of the things that we had been talking about regarding real risk were beginning to be listened to.

Q2783 Chair: Can we take one other example? It was reported in *The Times* this morning that Government officials are discussing the possibility of having to slaughter lambs that are in transit if there are indeed delays. Have they broached this with you as an organisation?

Richard Burnett: They have not broached that issue. Certainly, there has been a lot of discussion about the amount of fresh product. The Calais strait is the quickest, fastest crossing and, therefore, it is used by many trucks and by many hauliers that are moving fresh and live produce. Any delay is going to have a massive impact of the shelf-life of that and, yes, certainly from a livestock perspective, that could also have an impact.

Q2784 Chair: If it is true, as has been reported, that Government officials are discussing what to do in those circumstances, would you as an organisation expect them to be talking to you about that aspect of contingency planning?

Richard Burnett: Yes.

Q2785 Chair: They are not doing so currently.

Richard Burnett: No.

Q2786 Chair: That is very helpful. Mr Thompson, what is your biggest worry or worries?

Mike Thompson: I represent the pharmaceutical industry. We supply 80% of the branded medicines to the NHS. There are 45 million packs of medicine a month that leave these shores and go to the EU and there are 37 million packs of medicines a month that come back the other way— 90% go through Calais, for the reasons that Richard has described. Clearly there are very serious consequences if we are not able to deliver a medicine to a patient, so our whole focus since the referendum has been around what we do to ensure that we can deliver. We have been working for a long time— actually since the referendum.



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The thing that is of most concern to us is that now in our planning the Government have given us guidance in that in preparing stockpiles of medicine we should assume six weeks for the delays that may be at the border. If that number is wrong then that would have serious consequences for us if we have therefore got the planning wrong. That is the first thing.

The second thing is in a no deal we do not have the agreements that we have in the withdrawal agreement with the regulator, and therefore the transfer of information between the two regulators is at some risk. Having an effective regulator is critical for an industry like ours, which is a heavily regulated industry.

Those are the two things. We have been working closely with the BioIndustry Association, which is our sister association, from the referendum. We had 200 global experts working on this over the summer after the referendum. We came up with trade, regulation, movement of people and investment in the science base as our four key issues. Some of those are slightly more in the UK Government's control, but regarding the border one, as we have already discussed, there are two sets of authorities you need to go through to get through the border. Therefore, there is a level of uncertainty there, which is obviously concerning.

Q2787 Chair: It has been reported that there are some arrangements for the stockpiling of crucial medicines. Could you tell us a little bit about that and which ones it has been decided to make sure we have sufficient stocks of just in case?

Mike Thompson: I have told you that we as an industry have been working for a long time on this. It became clear that it was not possible for people to give us realistic scenarios about how all of this would play out. Therefore, we assessed that the no-deal scenario was the one that would give us the biggest challenges. I wrote out to my members last year reconfirming the need for them to double their efforts to ensure that they were preparing stockpiles of medicines so that we could continue to deliver those medicines to patients. That is what we are about. That is what is really important for us. Companies have been making their own arrangements. The Government giving us an assessment about what we should build in is important and that was very helpful.

The second thing is that it was incredibly helpful that the Government agreed that they would accept medicines that were made in France and Germany into the UK without further batch-test releasing. This is complicated in our area. For every batch of medicines that is manufactured you take a sample into a laboratory, and you do a lot of clinical assessment to ensure it has the right active and that the medicine is going to work in the way that it says on the label. That is why patients can have absolute certainty that the medicine is going to work every time. AstraZeneca and GSK are on record as allocating



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£100 million to actually build duplicate laboratories on the continent. I did not believe there was time to do that in the UK and, therefore, the UK's decision to agree that they would continue to take medicines from the continent without further batch-release testing is a really significant step in helping us to prepare. What we are looking for—because we are interested in patients across the whole of Europe—is for the EU to do the same thing, which they have not done. That is why GSK and AZ had to lay out that money.

I am concerned today to see that Guido Rasi, who is the highly respected regulator of the EMA, has announced that he believes there will be some medicines shortages on the continent. I would say to him that if he believes that he should replicate what the UK Government have done and he should ensure that the 2,600 medicines that have some part of the manufacture done in the UK can also go to patients in Europe without further batch-release testing.

Chair: That is really helpful and very clear. Thank you very much indeed.

Q2788 Stephen Timms: Can I ask you about one aspect of no deal, if that is the outcome? If there is not a deal on data exchange between the UK and the EU then our Government's technical note says, "You would need to take action to ensure EU organisations were able to continue to send you personal data". It goes on to say that for the majority of organisations, the most relevant alternative legal basis would be standard contractual clauses, and that might be something companies could do to ensure that it was still lawful for EU people and companies to send personal data to the UK. Have any of the four organisations represented here looked at, specifically on data, what no deal would mean for your members? Is anyone in a position to comment?

Mike Thompson: I can kick off. This may not be directly to the quote you have but data is critical to us. For instance, at the moment, the EMA, the European regulator, has a lot of data on medicines. In the withdrawal agreement there is a reciprocal agreement that they would pass that data to our regulator, and our regulator, the MHRA, would pass the data they hold to the EMA so that both regulators have got the data on all the medicines that are being used in Europe. There is no agreement to do that in no deal. We have a concern for our regulator that they would then be missing a lot of data. We also have concerns that the files of medicines that are going through the process of being licensed will not be available to the MHRA. Companies would have to start again, which would mean a delay in medicines coming to patients in the UK. That is a concern. What we want is a deal; we need to have access to European databases. At the moment the position of the Commission is that a third country cannot have access to a European database.



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To give you a practical example, if we take infectious diseases control, at the moment there is a single European database that protects us in the event of, say, the next Zika virus coming to Europe; we would collaborate together. If we are a third country, the EU current stance is that, therefore, we could not be part of it. That means that is not helpful to patients in the UK. It is not very helpful to patients in Europe because so many people come into continental Europe through Heathrow, and if we are not collaborating together then clearly we have weaker security.

The same goes for pharmacovigilance, which is where we pick up safety events. Again, there is a single European database that brings everything together. In particular for things like rare diseases where there are not that many patients, it is important to pick up all the signals. The UK contributes 38% of all safety signals that are picked up for the whole of Europe. Europe is going to be significantly disadvantaged without the UK as part of it.

We believe it is in the best interests of patients and public health that we continue to co-operate, and we have been grateful to all parties in the House who have been supportive of that position. Despite the fact that the Government have laid this out very clearly, both in the letter that Jeremy Hunt and Greg Clark put into the *Financial Times* over a year ago and in the detail of the White Paper that was issued, the EU has not responded to a single point. With five months to go we have no insight into what the response of the EU will be. That makes planning very difficult.

Q2789 Stephen Timms: Can I ask specifically about the pharmaceutical industry? You told us that some major companies have opened labs or built new labs inside the EU 27. Have there been cases of production being moved into the EU 27 because of these kind of problems?

Mike Thompson: I can think of one small example. You tend to only look at manufacturing on an R&D site on a 20 or 30-year cycle. I do not have an expectation that things would move anytime soon. People will take the long view on this and they will see how things play out before they make decisions. What I should say to support other comments is that I do not have the same level of confidence that smaller companies are able to do everything, because they do not have the capacity or capability to address some really quite complex things. Although I am very happy with the progress that is being made, we have to recognise that there is a risk and that it is smaller companies who will find this very challenging.

Q2790 Stephen Timms: Can others comment on the data point?

Martin McTague: I could comment on the fact that when we went through the GDPR process, where personal data suddenly became a big issue for a lot of businesses in terms of how they would handle



personal data and whether they would comply with the regulations, it was clear that there was very little or no understanding about how that could be managed. If you then put that in a European context, it would be even more difficult to try to get that quite complex message over to a lot of small businesses.

The thing that strikes me though, on a broader front, is that you mentioned contractual terms. We are finding that companies that are involved in a supply chain arrangement with big manufacturers are being told, "Look, these are not our problems. They are your problems. In the event of a no deal, we are washing our hands of this. You have to deal with all the consequences of no deal. We are insulated from it because our contractual arrangements protect us from being impacted by that". They are pushing the risk down their supply chain. A lot of small businesses are really ill-prepared to handle that.

Richard Burnett: I would concur with Martin's comments. If you look at our industry, 85% of our industry are SMEs. GDPR has been a big challenge for us in terms of implementation and making sure that we are compliant. If you consider the challenges that they are currently facing and looking at, that would certainly not be at the top of their priority list. Their concern about keeping things moving therefore becomes practically a far more important focus.

Andrew Opie: I do not have anything to add in terms of the company level. It is something we are discussing with our companies because, as you can imagine, a lot of our companies are online and would sell into Europe and keep data. To reinforce Mike's point in terms of data that is held in Europe, there is scheme called RASFF, which is a rapid alert scheme for where there are potential food incidents, which again we currently have access to through our membership of the EU, through EFSA and other areas. We are still unsure about whether we would have access to that rapid alert system going forward.

Q2791 **Craig Mackinlay:** I have quite a similar theme, gentlemen, if I may. To start with you, Mr Opie, we are almost looking as if the EU is the only place in the planet that we do any business with. There are a number of food products that come from outside the EU—particularly food products that are not suitable for growing in the region of the geographical world that we find ourselves in. How on earth do we manage to overcome all these great difficulties that you describe at the moment when trading outside the EU?

Andrew Opie: You are right. We do source from outside the EU—African beans and all sorts of stuff. We do trade with countries. We have done research with our members in terms of sourcing, and 79% to 80% of our imports come from the EU into the UK. There is about 11% that would be our most-favoured-nation tariffs and then another batch of countries outside that that would either be GSP or would be



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countries that have a bilateral agreement with the EU. We do trade with those and they go through specialist procedures when they come in. For example, if it is meat, it would have to go through a border inspection post and would potentially be held at the port for inspection before it could be released. At the moment if we are buying Irish beef—and we do buy a fair amount of Irish beef at the moment—we can ship it straight from Dublin into Holyhead and it is straight into our systems. There is a delay issue and there is a cost issue there.

The other thing I would say is that switching supply chains is not something that any supermarket is going to look to do lightly because we have decades of working to the same regulation in a very highly integrated system with the EU that delivers the efficiency and the affordability that consumers expect here.

Q2792 Craig Mackinlay: I have another question that perhaps brings in Mr Burnett as well. Let me give you the hypothetical Spanish salad-grower at the end of March, probably at peak time, when we start to import those sorts of things in preparation for Easter, and things are coming on in Spain. Are we really to believe that Britain is going to have any change to its requirements on Spanish-grown cucumbers or little gem lettuces the day after Brexit from the day before? He is going to use his local haulage company to bring stuff into the UK. I can see nothing that the UK would ever want to do that is going to be different afterwards than before.

I have been on many media saying, “What is the problem going back?” It is the going back that people are probably more concerned about. If there is this Spanish lorry that has then got other things to do in other parts of the EU, and if it is held up because of intransigence at the French border, possibly going back empty—he might be lucky; he might be going back full somewhere—is there not going to be all hell to pay from the region he comes from? He will be on to his local Spanish MP, or the German haulier to his German MP; he will be on to his Government, who will be on to the French Government, saying, “What are you doing holding up the entire logistics of the EU by not allowing lorries to pass back through?”

I could see nothing Britain will do to say that we are now going to start looking at Spanish little gem lettuces. I cannot see that is going to be a blockage coming into the UK, and the political pressure will be huge on anyone who is trying to block the borders for those going back. If common sense dictates, it will not happen. I would like to hear your views on that.

Andrew Opie: I agree with what you said. If you look at the technical notes, the Government have said, “We will not enforce border checks in terms of SPS checks at the border from day 1”. That is a great thing. We are not worried about the border in Dover necessarily; we are worried about Calais as a port itself—Calais



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becoming so clogged that vehicles simply cannot get in and out of Calais and then, for their return trip, once those Spanish lettuces have been delivered to the RDC, getting back out of Britain back to Spain to start the whole process again. Our issue is not with the controls that Britain has said that it will not administer, and that is to be welcomed. Our problem is really whether we can funnel enough vehicles through what is such a key port, which is that Calais-Dover route, or to Folkestone on the Channel Tunnel link. That is our concern.

Q2793 Craig Mackinlay: I know it is a concern but is it realistic? Who would be at fault here? Would it be just the French playing rather difficult games rather than the reality of modern trade?

Andrew Opie: Our concern is really based on the fact that we have to get this stuff on the shelves. If I think of lettuces, that is a really good example. I looked at the figures earlier. Only about 5% of lettuces at that time are grown here in the UK. Virtually all of them come from Murcia in Spain. They are all coming through that particular port because that is the one that has the capacity, the number of ferries or the Channel Tunnel to take the, across quickly enough before the product deteriorates. Our concern is that Calais, as a port, will become clogged and we will not be able to get the stuff on the shelves.

Richard Burnett: If I can comment, you would hope that common sense would prevail and that that would not be the case.

Q2794 Craig Mackinlay: I know the logistics industry. It is very tight margins. It really is. If the German haulier is prevented from doing his work for a week or two he is likely to be facing bankruptcy.

Richard Burnett: Absolutely. If you are looking at margins, you are looking at 1% or 2%. That equates to £60 per truck per week gross profit. There is no margin in that for error whatsoever. In terms of inbound flow, Chris Grayling has said that it would be utterly unrealistic to check. The problem that we face at the moment is, again, the clarity of what the customs process looks like in the event of a deal but also in the event of a no deal. We have had to sign NDAs to work with Government to know and understand what that looks like. At this stage all I would say, from what we can see, is that that customs process will not work. Industry is effectively telling HMRC and the Treasury that it will not work but they are not listening. What we need to find is a solution to that problem to make sure that we do not face these issues. Clarity and transparency is also needed because how can we, as an industry, plan for something that we cannot talk to anybody about and we have no clarity in terms of what people really want to do from a Government perspective. That is critical.

Q2795 Craig Mackinlay: Mr Thompson, I would like to start off with you



with the pharmaceutical industry. We produce some pharmaceuticals that are fundamentally important to people across the EU, and uniquely so. Hopefully if there is concern, it is concern on both sides. How do we manage these data processing problems that you highlight and these testing problems when we have parallel imports from India, or unique pharmaceuticals that come from—I can only guess—the US or Canada? How do you overcome these problems that you have outlined today?

Mike Thompson: We essentially have three regional supply chains. If a product comes in from India, it has been done to European standards. We have a European regulatory system. The licence we have is for use of the medicine across Europe. That is cascaded down into good manufacturing practice and all of the regulations about the production. If something is coming, it is being already made to those standards and those things have been set up.

My issue is around the scale of what we are trying to do in a no-deal scenario. To give you an example of a company that is a manufacturer in the UK, they are currently trying to revalidate over 15,000 supply lines. We tend to think about the finished goods; we are not thinking about the components and the ingredients that go in. This thing goes exponential very quickly indeed.

If we go into no deal then for the majority of medicines there is no tariff under WTO rules. That is not true for ingredients. The last update for that was 2010. There has been blockage in terms of updating WTO rules. You have to go back for each one and work out what it will mean under WTO rules. What will the customs requirement be? If we are going to get set up, how long are we going to assume it is going to take? If we are trying to deliver all of these things into one manufacturing line at a time, how do we change all of that to make sure we can still do it? The scale of what we are trying to do means that some things will go wrong because we are trying to re-plan a whole industry in a very short space of time. That is the concern that I have about no deal.

Q2796 **Craig Mackinlay:** If we get to no deal, do you not think the reality would be a last-minute “what is good for you is good for us”, and we will just reciprocate existing standards? It seems to me not terribly complicated or unachievable?

Mike Thompson: What happens if that does not occur?

Q2797 **Craig Mackinlay:** There is always the issue of what happens if it does not. Again, we come back to that common sense, “Why would you do anything but?”

Mike Thompson: We are a highly regulated industry. It is not politicians out shaking hands and saying we will agree that it will all be okay. That is not going to work. These are regulations that need to be laid. Quite a lot has got to go through Parliament. There needs



to be parliamentary time to do that. Given the scale of what we are trying to do, I am not really convinced that everybody has fully understood what we are setting ourselves up for.

Q2798 Mr McFadden: Good afternoon. I want to look forward a little bit to what the future trading arrangement might look like. There has been a lot of political controversy about the Prime Minister's Chequers proposals. Some people have said that we should not have that but should have something closer to what the Canadians have negotiated with the EU. Most people in the UK will think that Canada is a fantastic country, a great place, much admired, a friendly nation and all the rest of it. That is all true, but in terms of Canada's trading position with the EU I would like to ask each of you if your organisations have had a look at the Canada trade deal and if you could give us some reflections on how you might operate under a free trade agreement similar to the Canada agreement compared with how you operate now.

Andrew Opie: We had a look at that. In some ways the progression towards some tariffs reductions—because it is not all tariff reductions—would look positive over a number of years. Some non-tariff barriers remain in there; we have not talked about non-tariff barriers yet but you will have probably seen there is quite a lot of evidence around to show what percentage that could add. I have seen up to 28% quoted. I am not suggesting the Canadian agreement is as high as that because the deal itself removes some of those non-tariff barriers, which is positive.

For us the mechanism is less important. The campaign we have run all the way is about a fair Brexit for consumers. It is the outcomes we have been interested in rather than necessarily how the Government negotiate it or what trade deal it is. At the heart of that deal needs to be a zero-tariff deal with the EU. We import 80% of our product. We are not going to move our supply chains quickly away from that, and primarily a zero-tariff tariff, particularly in agriculture and food where tariffs are very high, is the most important thing to us and to consumers. We cannot pretend that we can continue to get what we can without a good deal with the EU.

Martin McTague: This comes back to what the Chairman asked us about whether we have members in Northern Ireland. We have. They are very keen to point out that most of the trade between small businesses is north/south across the border, whereas the larger businesses tend to go east/west. They are very exercised about any change to the Irish border arrangements. The problem with Canada, from what we can see, is that it does not address, at least in the short term, how that can be resolved. We have heard statements about, "There can be a technological solution". It is quite difficult to plan your business and plan your investment and labour on the basis of a possible technological solution to something that is a day-to-day



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problem for you. The focus on the Canada deal has all come down to the Irish border.

Richard Burnett: The devil is always in the detail. It is not for us to say which set of trade terms or agreements should be put in place. Going back to the things that we have suggested for our industry, we need the free movement of goods. We need to be able to ensure that the supply chains that we have built are not delayed in any shape or form and that we still have access. As long as those deals are negotiated to provide that for our industry, we can carry on supplying just in time. That has got to be beneficial for both road haulage and the logistics industry in the UK.

Q2799 **Mr McFadden:** I appreciate that but what I am asking is whether you have looked at third-country free trade deals such as have been negotiated by Canada, Korea and most recently Japan, and asked if they do what you just said that you need.

Richard Burnett: We have and we have looked at the EEA.

Mr McFadden: That is different.

Richard Burnett: EFTA/EEA would probably be more favoured by our industry, but, yes, Canada would provide a process to be able to do that.

Q2800 **Mr McFadden:** You think Canada fits your needs. Is that what you are saying?

Richard Burnett: Canada could fit but so could the EEA and EFTA.

Q2801 **Mr McFadden:** There is a huge difference between the EEA and the Canadian model.

Richard Burnett: It is not for us to say which one. We want to make sure that we have the free movement of goods and that those goods are not delayed. Chequers would provide that.

Mike Thompson: We choose not to comment on specific solutions because we believe that is up to the politicians to deliver the political solution. We prefer to talk about principles. We are interested in frictionless trade and we believe that being part of the European regulatory framework is the best outcome for this country.

What we do accept is that by being a third-country, if that is where we end up, it would not be possible to have terms better than the EEA countries. Norway, Liechtenstein and Iceland sign up to the four freedoms and pay money into the EU. It does not look like it is the Government's intent to sign up to the four freedoms and, therefore, we do not think we could have a better outcome than the EEA countries. For instance, for the regulator Norway has a full part; they are able to be rapporteurs and co-rapporteurs so lead on scientific assessment; they just do not have a vote. Every decision made is a



consensus decision so not having a vote is not an issue from our perspective, but it would allow the MHRA to build capability and play a very full role. In Horizon 2020—those are the science programmes that are really important to us—again we would like to be able not just to pay to play but to also help to design the research programmes.

At the moment, the withdrawal agreement says that on those research programmes we can pay to play but we cannot be involved in the design of what we are paying for. That is not tenable in the long run. We are the third largest biopharmaceutical research cluster and we have the best R&D anywhere in Europe. Why would we put money into something that has been designed by somebody else? That is not tenable. We need to get that back. Again, for the regulator, it is untenable for us to be a participant but not to have a voice. Our concern is that it is a very difficult position for the country to take to have a Minister standing up in Parliament to respond to a public health issue and yet having to say, "This is a decision of the EMA but the UK has no voice".

We are spending all of our time lobbying in Europe to say to Europe, "The position that has been agreed in the withdrawal agreement is an untenable position for the UK. It is far better for Europe to keep the UK close. You want to keep that science base integrated into Europe's offer. Therefore, you need to move on this". It is quite difficult at the moment to get any response at all to that but those are the arguments that we are making.

Q2802 Mr McFadden: The issue you are highlighting between paying and decision-making and control and so on will run through this. Can I ask one further question, probably focused more on Mr Opie and Mr Burnett? It would be really useful if you could tell the Committee a little bit more about what types of food import and export are particularly vulnerable to any kind of delay—a paperwork or port delay—because when we go to our supermarkets there are thousands of different products; some are more vulnerable than others and some are more perishable than others. Can you give us, in a real-world sense, a couple of examples of what we are talking about? The Chairman earlier mentioned live animal exports. Along that line, can you tell us what types of food import and export we should really be focused on?

Andrew Opie: If we are looking at delays and the impact of delays, ironically the most vulnerable thing to delay is not fruit and vegetables and meat; it is cut flowers from Holland. They have the shortest shelf-life on them and you need to get them in quickest. If you want cut flowers they are the most vulnerable going forward.

If you look at food, really you are looking at soft fruit. A good example would be strawberries from Spain, which we would definitely be importing at that time. They have about nine days' life when we



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pick them in Spain. They have to go through a processing plant in Spain. They are probably packed there and put on a truck. It takes a couple of days up to Dover and another day or so to get to an RDC, a central hub for a retailer, then from the RDC into the store. They have probably got between three and four days left by the time they get into the store itself. If you lose a day or so at the port because it gets clogged up and we cannot get it through, you are starting to get to the point where the supermarkets are going to wonder whether it is worth putting that on the shelf because really it has such a short shelf-life for the customer who is then buying that and taking it home. Are they going to pay what they would normally pay for that product?

Soft fruit, salad vegetables, tomatoes—all the things that we would be importing at that time—are particularly perishable and particularly vulnerable. If you go maybe further along, you would have maybe Irish beef. We import quite a lot of Irish beef as primers, which we then mince and probably pack here. That probably has between seven and 10 or 11 days. It may have a little bit longer because it is normally vac-packed to preserve it to come in here. Even in that case if you start to lose a day or two in transit because of delays at the ports, it will start to have a knock-on effect. There are some very vulnerable dairy products. That is fairly small in terms of our imports. If you had to focus on one thing at the end of March and in the event of a no-deal Brexit, it would be your fruit and vegetables aisle in a supermarket.

Richard Burnett: I would concur with that list. The one that I would add to it is fresh fish and fish from Scotland and supplying the European market.

Q2803 **Mr McFadden:** Surely we do not have delays with fish from Scotland? Why would we have delays from Scotland?

Richard Burnett: I am talking about in the no deal scenario. Going back to Europe, where we supply Europe with fish.

Q2804 **Mr McFadden:** You mean the export of fish.

Richard Burnett: With the export market, there would be delay and an impact.

Mr McFadden: We had a great quote from the Norwegian Ambassador to the EU on one of our visits, who said, "There is nothing in so much of a hurry as a dead fish on the back of a lorry". She concurs with your assessment.

Mike Thompson: Could I add one point? All medicines are not the same. The majority of medicines are held in ambient temperature warehousing but particularly the latest medicines we are producing, which are biologics, require temperature control of two to eight degrees from manufacture through to the patient. In our assessment



of the warehousing available to manage the stockpiles, we are clear that we think we have enough ambient warehousing available to do that but there is not enough cold-chain warehousing available to be able to effectively build the stockpile that we are being asked to build.

There is a challenge at the moment for the Government to decide whether they are prepared to financially help the wholesalers to build that necessary warehousing. I understand that there is a dilemma for them because if they can strike a deal next week that means that we go into a withdrawal agreement then the money does not need to be spent. If they do not do it, something goes wrong in Parliament and we end up with no deal, then it will be too late to build that temperature control warehousing. That is a real issue on which Government need to make a call.

Q2805 Mr McFadden: I asked about food and perhaps I was remiss. We had some examples there of the shelf-life of strawberries and things from field to household. In terms of medicines we probably assume they have got a longer shelf-life again. Again, using similar kind of language to what we heard about food, give us an example of the shelf-life of medicines you might be concerned about.

Mike Thompson: You are right about the majority of medicines but not all medicines. Let us consider the really complex medicines we are producing today. There is a medicine that is used in an emergency situation where you take something out of the patient. Currently it is taken to the only place where it is then worked on. This is one plant in Europe. It has to be delivered in 24 hours and then there are three days from when it is being processed there to get it back into the patient. Already with that one, when we bring it back we bring it back by road but to get it to Northern Ireland we have to fly it from that point to get it there. That is a small example. That is one that cannot be x-rayed so the back-up that we have, which is air-freight; an extreme temperature is possibly not going to be able to work for that.

From our perspective, it is not about getting this 90%. Every patient matters so we have to get every medicine to every patient that matters. This is a scale challenge where we are concerned that something will go wrong here. There are shelf-life and temperature control issues for a section of our medicines, which are a concern.

Q2806 Richard Graham: Gentlemen, thank you all for coming and apologies for arriving slightly late. Can I ask Martin McTague a question first? In your earlier answer you said that your analysis—I am assuming this is the FSB analysis—of the value or otherwise of the Canada deal all comes down to the Irish question. I totally understand that is a huge part of it. What about frictionless trade? What do you believe a Canada-plus-plus deal would deliver for your members in terms of the Prime Minister's stated goal of frictionless trade?



Martin McTague: The best way to answer that is when we did some analysis of small business we found that roughly 30% of them traded, one way or another, either export or import products. Of those, over 90% had only traded exclusively with the EU so they had experienced no kind of border friction at all, either on imports or exports. It is more a question of being wholly unprepared for what they would face and that they have not dealt with any kind of border friction at all. Under any kind of arrangement where we have an external border, I am assuming there would be some form of friction. The one that they focused on principally was the Irish border.

Q2807 **Richard Graham:** Have the FSB as a body, taking that into consideration, provided that advice, particularly to those people whose Members of Parliament are strongly plugging the Canada-plus-plus deal as the best line of negotiation?

Martin McTague: Our approach in this whole exercise is not to try to rerun the referendum and give people advice. What we have done is we have said, "These are the issues". We are in regular dialogue with Government where we raise those issues. We try to do it in a neutral way in which we are saying, "Look, these are practical problems that have to be overcome". This falls into the same category. We have made it very clear to Members of Parliament in Northern Ireland that we have concerns about this. We have made it very clear to other Members in the rest of the UK and we will continue to do that.

Q2808 **Richard Graham:** I am interested in that because I have not seen anything. I am pretty close to my local FSB but I have not seen anything from them that advises their members in Gloucestershire that this Canada-plus-plus deal, with an assumption that there are going to be no problems for those of your members who are trading with Europe, comes with a whole baggage of caveats. Neither the members are aware of that nor the members' MPs. I can only encourage you to translate those thoughts and concerns so that nobody is in any doubt about what the FSB view is.

Can I turn now to Mike Thompson? You have explained some of the concerns in the farmers sector. Permanent Secretary Philip Rycroft from the Department for Exiting the European Union said, "My job is to understand what the implications are for businesses, what their own contingency planning looks like and re-funnel that advice into Ministers". Are you absolutely convinced that he understands what your concerns are?

Mike Thompson: The fact that the withdrawal agreement was a major step back for this country in terms of regulation and access to the science programmes says to me either that it was not fully understood or that it was traded away, because these were significant set-backs for our industry. What I would ask is that DExEU set up a group of heavily regulated industries that have some maybe more specific concerns. I recognise the challenge they have in trying to



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cover everything. If they brought together chemicals, aviation and ourselves, and maybe one or two others where we have heavily regulated industries, that would be helpful and that would build confidence in the industries that they fully understood the detail of the challenges that we are facing.

Q2809 Richard Graham: I am reasonably confident that Government do understand the concerns of heavily regulated industries—nuclear, aviation and chemicals in particular, but there is no harm in making sure that that message is getting through. On a shake or a nod of the head, can I ask the other three of you whether you feel the views of your organisations are clearly understood by the DExEU team. Andrew?

Andrew Opie: We have had discussion with DExEU, Defra, HMRC, and lots of different organisations and Departments around Government. They do understand the issues. We have been trying to put out very clear information around things like the impact of non-frictionless trade—let us put it that way—and the impact on the supply chain for some time, probably for about 18 months, just to try to help the debate. We feel they are understood by officials.

Q2810 Richard Graham: Just as a matter of interest, do you also represent fishing interests in the Falklands?

Andrew Opie: No, I am afraid not.

Q2811 Richard Graham: Do you think the sector is aware of their deep concerns about what the impact of no deal would mean for their fisheries?

Andrew Opie: I would have to pass on that.

Richard Burnett: I would reiterate what I said at the beginning, which is it has been a slow process. Government have been slow to listen to our needs, and it is literally only just recently that we feel as though we have got through and that we are beginning to see some movement in terms of the things that are going to affect our industry, but that has been quite a long and drawn-out process where we have had to push.

Q2812 Richard Graham: “Government negotiations” is the phrase to describe what is misleadingly called the Chequers deal. Regarding the Government negotiations, are you getting assurances and do you feel that the negotiators are absolutely clear about what the concerns from your sectors are?

Richard Burnett: They are abundantly clear.

Q2813 Richard Graham: Martin, is it the same for you?

Martin McTague: Yes. We are a member of a group of five industry bodies that regularly meet Greg Clark and other senior Ministers,



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including DExEU, and the communication is very clear from our side to them. I just hope that message is landing.

Q2814 **Richard Graham:** All four of you have links with similar bodies across the Channel, in Europe. In our experience—I am talking for myself but I think that other members of the Committee would agree—when we met various groups, we got the very strong impression, particularly in France and also to some extent in Germany, that a number of them had been leaned on by Government not to make their own concerns about the impact of no deal on, for example, the French aviation industry at all clear and not out into the media. This is completely different from the situation here in the UK. What is your impression about the level of understanding, particularly in the countries closest to us—France, Belgium and the Netherlands—about their concerns about what the impact of no deal would mean for their sectors?

Martin McTague: The only way I could answer that is that when we have met the various sister bodies in continental Europe, it is clear that they put a much higher premium on the single market and maintaining the single market. If they have to fall in line with Government edict, they will do that.

Richard Burnett: From my perspective, I would also agree that they seem surprised that we are even wanting to do what we are doing as a country. Outside of that, I would say they are very uneducated. They are coming to us to say, "What is going on? We do not know what is going on".

Q2815 **Richard Graham:** I understand that, but are they saying to you privately, in a way that they were hinting at with us but had clearly been discouraged by their Governments from saying too much, that no deal could have the same level of unintended consequences for them as we are concerned about here?

Richard Burnett: Those conversations have not taken place.

Q2816 **Richard Graham:** Mike, how about you?

Mike Thompson: We are completely aligned across Europe. We met together very early on in our European forum and came up to an aligned position. What I am saying is being replicated in Spain and in Italy. Colleagues of mine are going into Governments to say what we are looking for is medicines co-operation across Europe and that is in the best interests of patients and public health. We are completely aligned as an industry. I recognise that may not be replicated everywhere but we are completely aligned.

Q2817 **Richard Graham:** That is all very helpful. Do any of you want to answer a general finishing question, which is about the extent to which you are frustrated by the fact that a lot of stuff was said during the referendum that, objectively, was not very true, on both sides, so



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the difficulty with some of what has been labelled—with some justification—“scaremongering” by people about what would happen if we left the EU makes it harder for you to issue warnings now about what would happen in the event of no deal, without also being labelled scaremongers. To what extent does that impact what you feel able to say or not able to say? Do you feel you can say absolutely straightforwardly with a reasonable degree of conviction what you think would happen?

Martin McTague: From the FSB’s point of view we have not taken a partisan line, right from the word “go”. When we give advice to members, because it is pragmatic and issue-based it is listened to. Therefore, we carry a degree of credibility that maybe some of the participants in the debate did not have.

Andrew Opie: I do not have any worry. We have put various documents out. It is all based on data direct from our members. They are the major supermarkets. They know where they are sourcing from, what they pay for their products and what it costs on the shelves. It is very credible. We all shop in supermarkets every week so we have no problem putting that data out. What we have always asked for is a good deal with Europe and then a progressive deal with the rest of the world, but you go in stages. We feel that would be the best of benefits for all consumers. We do not have any problem putting the evidence out.

Richard Burnett: Again, we have been very clear. We have been impartial right the way through this. We have both Brexiteers and Remainers within our membership. We have to say what the implications are and what we see operationally at the coalface. We have not had any fear that we could not say what we needed to.

Mike Thompson: After the referendum we went public to say we accept the voice of the British people and we will work now to make the best out of that decision. That is what we have been doing. We have worked very hard with the media to try to help them understand the work that we are doing jointly with Government to ensure that we can get medicines to patients and ensure that there is not any inappropriate scaremongering. That would be very inappropriate for people who may be ill and may be very concerned, and also may cause people to start to inappropriately stockpile and therefore create the problem that we are all trying to alleviate. We are trying to manage the stockpiling as far up the supply chain as possible. We are not even managing it in the NHS or in pharmacy. We are holding it very high up because that means we can then direct the medicines that we need to where they are needed most efficiently. We are trying to walk a very careful line, being very honest with you about where we are, as is appropriate, but being really careful that we are measured in how we talk about this in the media.

Richard Graham: Thank you very much, all of you, for dealing with



the possible unintended consequences.

Q2818 Jeremy Lefroy: I want to cover four different areas that have come out of the discussion so far. Mr Thompson, you were talking about the disease notifications earlier on. Do we have similar arrangements with countries outside the EU—the United States or Canada for instance?

Mike Thompson: No. As I understand it—and I will check and confirm if it is different—as I said before, we tend to work very regionally. Therefore, at the moment we work in a European system. That works effectively. At some stage those things are looked at internationally as well, obviously; particularly if there were, for instance, safety signals, then those things would be picked up. If we were not able to negotiate to be part of the European system it might be quite difficult to negotiate that with other territories but those would be some of the things we would then have to look at.

Jeremy Lefroy: This is not covered through the WHO, for instance?

Mike Thompson: No. They would look at things at a high level. There will be committees who are looking at pharmacovigilance at a very high level. We are talking about safety signalling where we are picking stuff up on a daily basis.

Q2819 Jeremy Lefroy: Do you mean allergic reactions and things like that?

Mike Thompson: Yes.

Q2820 Jeremy Lefroy: It would not go down very well with the European public if their Governments were to refuse to accept safety signals from the UK because they were refusing to give them to us, presumably?

Mike Thompson: We would hope that when the politics dies down, there are compelling reasons from a public health perspective as to why we should continue to work together. We would need to get over the principle of a third country participating in a European database.

Q2821 Jeremy Lefroy: A country like Israel is very significant in pharmaceuticals. You are saying that at the moment they are not part of that, despite the fact that they are the source of many pharmaceuticals into Europe.

Mike Thompson: I would have to go away and check that specific detail.

Q2822 Jeremy Lefroy: You mentioned salad earlier, and this is a concern for me because one of the biggest salad growers in Britain—in fact in Europe—is partly in my constituency. The concerns that have been raised by this particular firm are about labour. They already corresponded with me this week. They understand that the



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Government have said that they would extend or reintroduce the SAWS, which is helpful, but they say this is not nearly enough to cover the needs of the industry. You were talking about the potential problems of salad coming from Spain in March or April. We are now talking about potential problems to UK-grown salad from April, May and June onwards because of lack of availability of labour. Is that something that you have been made aware of?

Andrew Opie: Yes. We have similar issues around EU migrant labour. Right through our supply chain we have had a very good conversation with our larger growers who produce for us as well as the manufacturers. Already they are starting to see problems in terms of less migrant labour being available, hence the discussion around the SAWS scheme. For us, also, as retailers we have canvassed our own members and we had quite an extensive research in terms of employment and our exposure to EU migrant labour, particularly in logistics and distribution, is very, very high. It is over 30% in the south-east, for example.

Our concern is not just at the producer end, though we absolutely share the concerns of the growers that you are talking about. Even if we were able to get enough labour through a SAWS scheme or a different permit scheme, would we then be able to transport that product through the RDC to the store? We may be able to pick it but we might not be able to transport it. The MAC report that we saw recently, and the Government's reaction, is a real concern to us going forward in terms of what signals it sends to migrant workers who might want to come here, and to retail in terms of logistics and distribution particularly; also some of the stores in the larger urban areas are particularly reliant on the EU migrant labour, much as farms are.

Q2823 **Jeremy Lefroy:** It is going to be a question of labour shortages but potentially also wage rises, which in some respects is not a bad thing, and that is going to lead through to price rises for basic produce.

Andrew Opie: I can speak more from our side in terms of logistics and distribution. If you are somebody with a HGV licence you could go and drive a truck for various companies, can you not? If you had those skills and qualifications, you could take that labour and use it somewhere else. One of the big concerns we have is exactly around that. There are rising concerns around cost because there are not enough people who are qualified to do those jobs.

Q2824 **Jeremy Lefroy:** You may well expect, after next March, in some areas quite significant price rises from food stuffs?

Andrew Opie: It is always difficult. I am never going to quote on what I am going to see in price rises that far ahead because there are many factors that influence the final price that we pay on our shelves. What I will say is that is going to add to the cost pressure in terms of those prices on the shelves.



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Q2825 Jeremy Lefroy: If I could just return, Mr Thompson, again, to the question of pharmaceuticals, because the pharmaceutical industry depends very heavily on research. The UK is one of the leading countries in the world. I will declare an interest in that I am on the board of the Liverpool School of Tropical Medicine, which also has large number of researchers. What are they telling you about access to research staff if we no longer have free movement of labour?

Mike Thompson: Typically in a research lab there would be 22, which is up to 40% of staff who would come from outside of the UK. As I said to you in the UK we should be very proud of our science base. It is the third most productive in the world. Therefore, we need to have global experts here. The ability to move them in and out, for companies to move people around from labs to labs to build experience is part of how you develop that expertise. Although we are reassured by the statements from Government about what they are planning to do to ensure that high-skilled labour can still come into the UK, if we got that wrong and people could not get the people they needed into the labs, then the labs would be closed and it would be moved elsewhere. It is a really critical thing that the Government need to get right. This is obviously something that is in their own control.

What I say to them is that getting two-tier visas and coming in here is incredibly complicated at the moment. Most companies outsource this to a specialist to do it. There is an opportunity for the UK to come up with something that is a more streamlined, simpler system that people can manage without having to go to the expense of doing it. There is an opportunity to step forward but we cannot get this wrong.

Q2826 Jeremy Lefroy: What are you understanding about what the Government are proposing about wage levels for access to skilled labour? What sort of salaries would they have to be paid? I have heard £50,000.

Mike Thompson: My advice to the Government is that we need to think about what we are doing to support young people who are developing through. Young people are incredibly creative, a source of fantastic ideas. We need to make sure that they are able to be moved because it is the early experiences they have in the top labs that will make them into the great scientists of the future. We have to be thoughtful here and there may need to be more criteria than just wages to be considered when we are thinking about the skills that we need in this country.

Q2827 Jeremy Lefroy: It should be qualitative-based rather than quantitative, in terms of a money-based assessment system.

Mike Thompson: A variety of criteria may help. It may be more difficult to administer but it may help to get to a better answer.



Q2828 Jeremy Lefroy: In order to preserve our position as a top pharmaceutical life sciences country, we are going to have to have a much more flexible approach to immigration than has perhaps been put forward so far in terms of work permits based purely on wage levels?

Mike Thompson: There are opportunities to change the current system to make a future system even better than we have today. I would encourage the Government to seize that opportunity.

Q2829 Jeremy Lefroy: Finally, I have a general question. The UK's position about being very open and allowing imports to come in is very welcome. We hope that that is reciprocated. If it is not reciprocated, what is already a very severe imbalance between imports and exports with the EU is only going to get wider, because you import things that you need that you cannot produce yourself. If there are going to be obstacles on the other side then there is a much greater market and territory for people to obtain what they would have obtained from Britain. Is that a concern that you might have?

Andrew Opie: It is a concern for us, more in terms of the damage that we might do to our own UK agricultural system. If they cannot export their products—and the reason they export products is to add value to the carcass or to the crop that we do not use here—and they do not get that added value, then there is a real threat to the medium to long-term sustainability of our own agricultural industry. Although I talked a lot about imports at the start, once we get into seasonal vegetables, such as lettuce, for example, we look to source here in the UK, so that will always be our core supply chain. My concern is less about imports coming in overnight but the damage that imports—if we cannot allow our own industry to export—will have on the UK agricultural system here.

Q2830 Jeremy Lefroy: Would that apply in other industries as well?

Martin McTague: Yes, I think so. It is clear from the evidence we have seen that exporting companies are generally more secure and have better management structures. The Government are trying to address the problem of the long tail of unproductive businesses or low-productivity businesses. If you shut off the possibility or make it more difficult to export to neighbouring markets, that is going to damage productivity in the long run. It is a big issue for UK plc, not just a particular sector.

Richard Burnett: It has a direct correlation on our industry. We are a volume-based industry. If that volume is not moving then it impacts in terms of both volume and jobs, yes. It is a concern.

Mike Thompson: I have a slightly different perspective on this. We are a global industry, so for us it is about imports coming in to the right regulatory standard and ensuring that IP is protected, et cetera. Those are the concerns that we have there.



On exports, if we end up in a situation where tariffs from stuff that is manufactured here are higher than elsewhere then it will make it more problematic for people to build manufacturing plant here—why would you do that when you could put it into the EU where you would then have a tariff-free situation? There is a lot of work that we would need to be doing with the WTO, because, as I said, it is not just about finished goods, where medicines tend to be zero-rated, but it is about the ingredients coming in. Those tend to be 6%-plus, et cetera, in there, so those are some of the inbuilt disadvantages we would have until we had sorted out a whole raft of free trade agreements, which, in our experience, take years to do.

Q2831 **Jeremy Lefroy:** The Government are very much concentrated, in a no deal, on the implications, quite rightly, for British customers, and whether we can get access to medicines or food and so on, but there are also serious implications for British exporters and manufacturers. If you have a certain production, and a certain amount of that goes for export, then your opportunities to export are more limited—it drives up your cost base because you have a smaller production spread over your cost base. Therefore, the no deal should be looked at from the point of view of British manufacturers' exports as much as the ability to maintain food supplies and pharmaceutical supplies and things like that.

Mike Thompson: Absolutely.

Chair: If you are nodding, a "yes" for the record would help.

Andrew Opie: If we were to, for example, unilaterally cut our tariffs here but Europe maintained their tariffs, which is likely because they have to administer those for all third countries, there is some really interesting research that has been done to look at the impact, for example, on the beef sector—a 10% drop in beef production over five years, which would be really damaging to people like suckler-cow producers, who are producing beef for the market. You can get some really good evidence to show that, if we were to take a unilateral decision to allow imports in, which is great for customers in the short term, it is extremely damaging in the medium to long term because then we damage our own core industry here.

Martin McTague: Yes, it is damaging. When I see the reaction from a lot of small businesses to what they see as a shrinking opportunity, their reaction is not to say, "We will look for an export opportunity we have never considered before"; it is to shrink the business. It is to take on fewer people and invest less, and to de-risk the business, really. That has to be bad for everybody.

Q2832 **Stephen Kinnock:** Good afternoon, gentlemen. I just wanted to touch on the White Paper, the Chequers agreement and particularly the two aspects of it around the trading relationship that the European Union has cited as the reasons for why it will not fly. The



first is about the common rulebook for goods not including services. The point that the European Union makes is that 20% to 40% of the value of trade in goods is underpinned by exchange in terms of services. I would be interested in your perspective on that—I am just trying to get a sense of the extent to which the difference between goods and services has elided. It may be that certain of you on the panel see that more than others; for example, in the transport industry, exchange in services is very important, and also, I would assume, in pharmaceuticals and many of the smaller businesses as well. I would be interested in your feedback on that first major concern about the EU around the common rulebook being outside the broader scope of the single market for services.

Richard Burnett: Again, it comes back to the definition of “services”. From a transport perspective, if you look at the industry and you look at the imbalance from a European perspective, in terms of the volume that goes from the UK into Europe, we only cover about 15% of that volume. 85% is delivered in and, I guess, volume back out to Europe by European hauliers. It is critically important from their perspective that they maintain that element of service.

Nothing has been discussed or talked about in terms of the deal yet. We are restricted in terms of how we can trade and how we will access Europe. What is really interesting is that, from our perspective, we are seeing European businesses already contacting British hauliers to say that European hauliers are walking away from coming to the UK next year contractually. They do not want to be part of the risk of what may happen. The problem with that is that, at this stage, from a British-haulier perspective, we have no guarantees of being able to look at the trade in reverse, because we have no access in the event of no deal.

From our perspective, it is a challenging picture and it is one that, certainly at this point in time, is not clear how it is going to play out.

Q2833 **Stephen Kinnock:** Based on your perspective and your experience at the coalface, so to speak, you see where the EU is coming from in terms of the reasoning around why this was one of the factors that led them to the view that the Chequers proposals were a non-starter. Do you see where they are coming from, from that perspective, because you agree that the difference between goods and services is elided, to a very large extent?

Richard Burnett: Yes.

Mike Thompson: I would not want to comment on the political position of the EU on this. What I would say is that, if you look at WTO rules, then we can see that, if you do not have a free trade agreement that is all-encompassing, life gets very complicated indeed. As you know, you have to work out on a medicine the different components of it and where they have come from—different



countries—and, therefore, what tariffs may be associated with individual elements of that to work out how much you are going to pay. These things can get enormously complicated and take up a huge amount of resource and time to do. We have benefited hugely from being in a free trade system and that is what we are looking to remain in.

Martin McTague: I acknowledge your opening remarks about the line between goods and services becoming blurred and many companies supplying a mixture of the two, but that seems to me to be a classic case where negotiations thrive in blurred areas. I assume that that is the way that this negotiation will proceed. We do not have any evidence to support the assertion that the EU would find that difficult.

Q2834 **Stephen Kinnock:** My second and final question was on the other factor that the EU has objected to in the Chequers proposal, which was the facilitated customs arrangement. That was, in essence, about goods going from the UK to the EU or to other third countries, and in essence, the EU should delegate responsibility to the United Kingdom administration to determine what the destination of the goods was and, therefore, what kind of tariffs and non-tariff barriers should apply. You are not at all speaking for the Government here but it is a vital relationship, I guess—your relationship with the HMRC and the CDS system. I guess you have seen, first hand, how that all works.

The point the European Union was making was that that was not workable and that they could not delegate that responsibility. Is that a point that you could see, based on your experience? That may be something more for Mr Opie.

Andrew Opie: I cannot really comment on the workability of it, but what I could say is that we are concerned about the additional burdens that it might place on businesses themselves in terms of their relationship with HMRC and where they then have to claim back tariffs potentially on product. The additional burden is what we have looked at, rather than the workability of the scheme, and we feel it would add burden to our businesses.

Q2835 **Stephen Kinnock:** Did you at any point get asked by the Government about these proposals for a common rulebook for goods and not services, and the facilitated customs arrangement? They are at the heart of the Chequers proposal but, from what you are saying, you would have raised some questions about their workability.

Richard Burnett: By virtue of the fact that we are under NDA, there is a fair bit of detail that sits behind that, which we cannot talk about. However, it is fair to say that it is not the most simplistic of processes and, in terms of the facilitated customs arrangement, I guess what we have seen so far would suggest that it is quite a complicated process. It certainly would be a very complicated process for us to



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administer, and that is one of the things that we are very concerned about as an industry. From that perspective, are Government listening? No, they are not listening. They are not listening to the concerns that are being raised about the workability of that system. Would that raise concerns? Possibly.

Q2836 Stephen Kinnock: In essence, the Government went ahead with the proposal. I know there are certain things you cannot disclose but you were clearly expressing a high degree of scepticism about the workability of those proposals, and yet the Government went ahead anyway.

Richard Burnett: We have engaged, sat down and gone through “a day in the life of” to understand what all the handshakes would be, what we would need to do and what we would need to accommodate in order to make that work, and I guess what we are saying at this point in time is that it is a very complicated process that we believe will not work. Therefore, if we believe that, there may be some concerns elsewhere.

Mike Thompson: Just to say, in my sector, we have the Falsified Medicines Directive, which is being implemented at the moment, where we are putting a barcode on every single medicine. Therefore, there is a system to track those medicines up to the point of dispensing. Provided that we implement that, there is full traceability. Again, we have a rather unique solution, which probably is not much help to Government, but it shows why medicines can continue to be part of a free trade agreement in Europe and we will be able to work that very effectively.

Richard Burnett: Could I just add another point in terms of declarations? The complexity of where this really comes from is the number of consignments that we would need to administer. At the moment, everything flows through, but there is a scale here where individual consignments would have to be declared. If you think about a trailer that is coming through at the moment, which just flows through with 5,000 consignments on it, each individual one would need to be highlighted. That is quite complicated.

Q2837 Emma Reynolds: Good afternoon. From what you have all been saying, it seems that the current arrangements work quite well—for example, Mr Opie, certainly in the import and export of fresh produce and livestock. Could I therefore assume, from what you have said that, whatever deal is agreed, you would prefer some sort of equivalent situation so that you did not have any delay at the border, and that the present situation, where we are a member of the customs union, has benefited your members to a great extent?

Andrew Opie: Yes. We want as close to frictionless trade as we can get. We run very efficient supply chains that move products very quickly across Europe to where they need to be, which is on the



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supermarket shelves. We want a system that can replicate that as closely as possible. We are less concerned about what that system looks like, but what we want to do is certainly remove any checks at the borders. Even if checks had to be made, we would prefer that they were made away from the borders; however, we would prefer not to have checks at all, so that product can move quickly. That is our fundamental issue because the supply chain works really well at the moment.

Q2838 Emma Reynolds: Any checks or delays at the border could threaten the success of the—

Andrew Opie: I said earlier that a lot of our fresh stuff comes through Dover, and I am sure the Committee has seen numerous times the statements about an extra minute's delay at Dover and what that means, so we do not need to go back over that again. For us, it is any checks, whatever they are, at those borders, and particularly at the key ports, which, for us, are Dover and Folkestone, and probably Holyhead as well for Irish beef and cheese. Any checks there are going to be a problem for us.

Q2839 Emma Reynolds: Does anybody else want to comment?

Martin McTague: I would just endorse those comments because it is hard not to understate how much virtually every small business has taken it for granted that they have this completely frictionless trade going on. They have become disengaged from all the debates that I am sure you have been looking at in detail, so this is going to complicate—

Q2840 Emma Reynolds: They are not the only ones, are they?

Martin McTague: I did not want to add that, but yes. This is going to come as a pretty rude shock if they are faced with a lot of additional time constraints and bureaucracy that they were not prepared for.

Richard Burnett: I would echo the comments that have already been made. From our perspective, any delays—and we are still not clear what that may look like in terms of a deal or no deal—are going to have a massive impact on the supply chain in the UK. I go back to what I said before. If you go back to 1992, the volume of trade has tripled since then from Europe into the UK, and we have become so reliant upon it that if we have any delay within the supply chain, that is going to have a knock-on effect in terms of our ability to move product.

Mike Thompson: Delays at the border are our biggest concern from no deal.

Q2841 Emma Reynolds: Can I therefore surmise from what you said that, if the result of the negotiations and/or the vote in Parliament is no deal,



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that really is the worst scenario for your sectors?

Mike Thompson: I said at the beginning we saw that as the most difficult scenario for us to plan for.

Q2842 **Emma Reynolds:** I know that you, Mr McTague, said that quite a number of your members had not done any preparations for no deal. For small businesses, it is much more difficult, but perhaps if I could ask the other witnesses: what costs have been associated with contingency planning in your sector for no-deal?

Andrew Opie: I am not sure I could put a figure on costs but I have been speaking to members recently about contingency planning. I am talking about the major retailers here. They have all been contingency planning for some time, so they have done the obvious things that you would expect: they have traced their supply chain; they have looked at vulnerabilities; they have looked at how their suppliers are prepared; they have had quite a lot of conversations with their larger suppliers, which tend to be multinational companies anyway, so they are operating across Europe. They have done all of that. They have tried to engage with their smaller suppliers. It is more difficult but they are taking that upon themselves. We heard about technical notices, but many of the companies I am speaking to are cascading the information to those companies directly rather than relying on them reading the technical notices or paying attention to them. They are going directly to them to do it.

In terms of the costs so far, it has been primarily internal around that planning. We are starting to see companies now trying to gear up for the new customs arrangement. We know that customs agents, for example, are in massive demand at the moment, because everybody is going to need to administer customs, which we have not done before. We are aware of companies looking at customs agents. We are aware of companies talking to suppliers about whether there is any possibility to stockpile. It would not apply to fresh produce, but whether there is any way that you could, in some way, stockpile that might soften the blow of a no-deal situation.

There is a lot of planning going on but also, I would say, most companies will not necessarily press the button on all of that until they really see the outcome of the next set of negotiations—next week's negotiations—and then, if there is a November emergency summit, that would probably be the trigger to really put plans in place.

Richard Burnett: From our perspective, I would say that we still have a lack of clarity. We have a lack of real understanding in terms of what it is we are going to be planning for. If we are going to be looking at more customs agents and if we are going to be looking at more people to do the administration behind the scenes in terms of what is required, we still do not know what that looks like and we still



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cannot share it with the industry that needs to plan for it. That is a real issue.

Mike Thompson: We have been planning for a worst-case scenario in terms of the impact on us and, therefore, companies have already spent, probably, collectively, across the industry, hundreds of millions of pounds to prepare. Should we end up as a standalone country, then there will be duplicate costs, which then mean that this country will be a more expensive to do business from.

Q2843 **Chair:** Just to conclude, picking up that point, first to you, Mr McTague, have you made any attempt to try to quantify what the additional cost to your members would be of a no-deal Brexit? You talk about custom declarations and other things. Are you aware of any work that has been done?

Martin McTague: No, we are not. The no-deal scenario has been really complicated as far as our members are concerned, in the smaller business community, but what we have tried to do is to concentrate on trying to provide them with good advice rather than trying to quantify what the likely outcome would be.

Q2844 **Chair:** I just want to ask something very quickly, and then Peter Grant wants the last word. Mr Burnett, the RHA warned that the costs of new obligations after exit would be massive. Have you quantified what you think they would be?

Richard Burnett: It is very difficult to quantify and put a figure on it but what I would say is that, if you look at the administrative burden that is going to go behind this on every load that is being processed, we are going to be looking for a significant uplift in terms of administrative costs. Clearly, the costs of any delays are going to be significant. If you looked at £50 per hour per truck, that is the kind of measure.

Chair: That gives you an indication.

Q2845 **Peter Grant:** Like a good politician, I am changing my policy. This morning it was that original is best but now it is keeping the best to last. Good afternoon, gentlemen. You have all mentioned discussions that you have had regularly with either ministers or civil servants. Martin, you said something like, "The message has been put across very clearly; we just need to hope that it gets to the right place". Can any of you give examples where it is obvious that the Government's approach has been modified on account of representations either that you have made or that you are aware of having been made by other business organisations?

Mike Thompson: The example that I gave, where the Government have agreed to accept batch-release testing from products made on the continent for the UK, is an example where the Government have listened and made a change from their original position.



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Martin McTague: The thing I would focus on is the transition arrangements. We made it absolutely crystal-clear that that was an absolute red line for us. If there was no transition, it would be disastrous for a lot of small businesses. There was a recognition that that was a problem and there was a change in policy at least. That is how it looked from the outside.

Q2846 **Peter Grant:** Do you have a view as to how long the transition period needs to be?

Martin McTague: Long enough. I am going to give you a fuzzy answer to that because, ultimately, it is probably more of a political decision rather than an economic one.

Andrew Opie: The key thing is to get a transition, first of all. To get a transition is absolutely the key for our members to prepare. No deal is not a good result for UK consumers. Retailers need more time to prepare, so it will not encumber consumers too much. In terms of time, it is as long as we can get; we understand the negotiations and therefore that is fine.

The other area I would say that we were pleased at the recognition was around the zero-tariff issue—a zero tariff both sides—with both the EU and the UK recognising that definitely is the best deal for UK consumers, particularly in food, where tariffs are extremely high. At 40%-plus in beef and cheese, they would have a devastating impact in terms of prices on the shelves, so a recognition that a zero-tariff deal is the right approach is the right one.

Richard Burnett: From my perspective, again the transition period was a critical part of our ask. If you take this back to a new business implementation on a scale like we have never seen before, there would always be probably two years in the planning and a very clearly defined plan about how you were going to enact that. That was critical.

One of the other elements that we have been very clear about is that, in the event of a no deal, we absolutely needed continued access to Europe. Up until August, I do not think we were negotiating hard enough to try to go and get bilateral permits. I know that that has changed and I know that we are on with that to Government.

Q2847 **Peter Grant:** If I come back to the question about labour supply that Jeremy spoke to you about earlier, if you look at the apparent direction of Government policy just now, some of which was very firmly repeated last week by the Prime Minister, the free movement of people has to end; there has to be probably a significant long-term reduction in net immigration; and it looks as if there is going to be a particular focus on what the Government describe as low-skilled or unskilled workers. I do not like either of those terms—I find them both deeply offensive—but they are the Government's terms. Some



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people would look at that, and we have listened to the comments that you have made and we have listened to the views we have had from a lot of other sectors of industry and public services, and would say, specifically on the free movement of people and on future immigration policy, that the Government seem to be doing almost exactly the opposite of what almost everybody is telling them. How close is the Government's current response on immigration to what each of you think it would need to be in order for your sectors to continue to flourish?

Andrew Opie: I said earlier that for us, in terms of our otherwise operations but also looking up the supply chain, we are very concerned about the current approach to immigration. We would prefer a demand-led system that allows labour to come. We understand all the issues. We are trying to improve our productivity. We are trying to improve and introduce more technology, for example. We do expect jobs in retail generally to fall over the next five years, but there are some what I describe as semi-skilled and lower-skilled roles that currently are filled by EU migrants who do a fantastic job. Probably the best example would be something like meat-processing chains. Even the Food Standards Agency's vets and inspectors are primarily drawn from the EU. We have a fantastic, high-quality sector there, but it relies on good, skilled, hardworking people filling those jobs. We also have pretty much full employment in this country at the moment, so, as retailers in our chain, we struggle to recruit people to do some of these jobs. Therefore, again, to service consumers, we need an immigration system that is demand-led and gives us access to the labour that we need.

Martin McTague: The best way to describe this is to think about the fact that the average small business does not differentiate nationalities when they are looking on the labour market. They are generally looking for people who they can recruit locally. In many cases, they could be Poles or they could be Lithuanians, but they are looking to fill particular skills. At the moment, 20% of the small-business workforce comes from EU nationals, according to our data. If we have to get involved in a process that involves complex and bureaucratic permit arrangements to get this kind of labour or to access this kind of labour, this could be really serious for a lot of small businesses. What depresses me is that the debate tends to get characterised as a binary choice between brain surgeons and fruit-pickers. There is a lot in between. We try to make the point that there are a lot of mid-skill occupations that are in serious demand, and it would be a major mistake to avoid that.

Richard Burnett: The MAC report, from our perspective, has not done our industry any favours. We are reliant on EU migrant labour. We have a driver shortage, which I have already talked about; we are some 55,000 drivers short at the moment. That has been exacerbated by this, because people are misreading what has been



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stated in terms of current EU migrants who are here being protected. However, those people are listening to the headlines of the news and papers and reading “no favourable treatment post Brexit”, so they are getting nervous and we are already seeing them go. Currently, we have the lowest level of unemployment for 43 years and we are really struggling to access an apprenticeship levy that also is not working. In terms of the whole process in terms of supplying the market with skilled labour, if we are setting this at a level of £50,000 per person in terms of job role, our industry would not be able to cope moving forward.

Mike Thompson: We are more reassured by what we have seen to date but, as I said, the devil is in the detail. There is also a scale factor here. If there are so many people requiring permits that it takes nine months to process something, our industry cannot wait nine months to move a key worker.

Chair: That concludes the session. Can I, on behalf of the Committee, thank all of our witnesses this afternoon for the really helpful evidence that you have given and for dealing with all the many questions that we have put to you? Thanks for coming.