HOUSE OF LORDS

Select Committee on the European Union

Internal Market Sub-Committee

Corrected oral evidence: Future UK-EU transport arrangements

Thursday 18 October 2018

11.05 am

Watch the meeting

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

Evidence Session No. 4 Heard in Public Questions 29 - 38

Witnesses

I: Mr Gavin Simmonds, Policy Director—Commercial, UK Chamber of Shipping; Mr Ian Hampton, Chief People and Communications Officer, Stena Line; Captain Wyn Parry, Port Manager, Holyhead Port Authority; Mr Neil Glendinning, Council Member, British Ports Association; Mr Ross Wombwell, Head of Technical Services, British Marine.

Examination of witnesses

Mr Gavin Simmonds, Mr Ian Hampton, Captain Wyn Parry, Mr Neil Glendinning and Mr Ross Wombwell.

Q29 **The Chairman:** Thanks very much for coming. I am sorry that we are running slightly behind time. We have an hour. You know the basis of our inquiry. Would each of you introduce yourself and give your view on how far the Department for Transport is preparing the maritime and ports industries sector, in conjunction with the sector, for Brexit? What is your view on its preparations for no deal, and how far is it prepared for any outcome on Brexit? While you are talking about the DfT, if there are any cross-references to the devolved Administrations, perhaps you could cover them as well.

Mr Ross Wombwell: I am the head of technical services at British Marine, the trade association for the recreational, small commercial and superyacht sector. We have an annual turnover of around £3 billion, of which about one-third is exports; about half of that is to the EU. We represent 1,500 companies in the sector.

On how the Department for Transport has been doing so far, we have had significant interaction with a number of government agencies and departments, probably the most that we can remember at any time. There has been a lot of discussion. The no-deal technical reports have been received very favourably, especially in the manufacturing sector, but there are a few outstanding questions, which I am sure we will go into as we work through the session.

Mr Gavin Simmonds: I am a director of policy at the UK Chamber of Shipping, with responsibility for Brexit and commercial issues. The UK Chamber of Shipping is the trade association for the UK shipping industry, with a membership of more than 180 companies. We represent not only ship owners but ship managers and other professional maritime organisations and service companies. We have a strong and close relationship with the Department for Transport and have been closely engaged with it at all levels, on all subjects relating to Brexit. We have had positive and open dialogue, over what is obviously a very difficult period of negotiations.

The no-deal technical notices are what they are supposed to be—very technical. The detail as regards maritime is contained in two specific technical notices. If we were looking for further guidance from a technical notice in an area that has not been covered to date, we would draw attention to the market access issues that face the UK shipping industry in the event of no deal. We are perhaps a bit short of guidance in that area, and no doubt we will return to that point later.

In the Brexit negotiations, we have good relations and regular dialogue with the devolved Administrations, but it is fair to say that they are following the UK Government. They are not making their own dialogue, but we have discussions with them over the competences that are devolved to the Administrations in Wales and Scotland.

Mr Ian Hampton: I am the chief people officer for Stena Line and one of the company directors for the Stena Group in the UK. We are a large company in the UK in relation to our total asset; we have £2.2 billion invested in the United Kingdom across Stena Line, in ports, ships, offshore drilling, LNG vessels and suchlike, so we have a huge vested interest in activities that occur in this country.

On our relationship with the DfT, I echo colleagues on the panel: we have had a very close relationship, and have had the privilege of meeting the Maritime Minister to talk specifically about Stena Line's perspective on Brexit and maritime issues in general, but the focus was on Brexit. In both respects, the dialogue was very positive with DfT officials and the Minister herself, inasmuch as it could be, since we all lack certain answers to certain questions. There was certainly preparedness to talk.

On some of the detail, as Gavin said, there has been a release of technical notices. From our perspective there is slight disappointment, in that the EU released five specific technical notices relating to maritime, whereas the UK released two. Other areas could be looked at, such as consumer protection, passenger rights and seafarer qualifications. It might be useful for the UK to look at those in more detail, given our size as a maritime nation. Other than that, I re-emphasise that we are open to talk further and have been actively pursuing talks with the Government.

From a local perspective and a devolved perspective, we have interacted with the Welsh Government, and the Minister responsible for infrastructure and tourism. Of course, in some respects they follow the UK Government, but, from a port perspective, which my colleague will talk more about, they have devolved responsibilities, so we are keen to keep a close relationship with them, as we have been looking to make further investment in Welsh ports. There is nothing too concrete on the devolved level, but we are keeping dialogue open.

Mr Neil Glendinning: I am the chief executive of the Harwich Haven Authority, the port authority for the haven ports, which include the nationally significant port of Felixstowe along with Harwich International Port. Trade at those ports stretches from the mainstream flow of containers and trade from China into the UK, to ro-ro traffic, passenger traffic and short sea trade, so we cover the whole spectrum of maritime trades.

I am here today representing the British Ports Association. To echo comments from colleagues, as an association we have had very good dialogue and involvement with the Department for Transport, but what has been highlighted and concerns us is the lack of engagement from EU member states' port organisations, and whether their preparations mirror what might be happening in the UK. Whatever we do in the UK needs to be mirrored on the continent to allow the trades to continue to flow as we would like them to do.

The Chairman: I may come back to you on that.

Captain Wyn Parry: I am the port operations manager for Stena Line, responsible for ports in the Irish Sea south, the busiest of which is Holyhead. To echo what Ian has just said, we have had involvements with HMRC through the border working groups, and we have had a number of visitations to the port, which I would call fact-finding missions. There has been good engagement with Defra, although perhaps a little more is required. I am sure that we will get on to that a bit later.

The Chairman: I want to pick up Mr Glendinning's point about information from the continental EU ports. When some of us went to Dover, we were told that discussions with Dunkirk and Calais about what needed to be done were quite substantial, although they were not definitive. That may not have happened with the container ports or the Irish ports. Did we get too positive a view from Dover in that respect?

Mr Neil Glendinning: The bilateral discussions between Dover and its immediate connections at Dunkirk and Calais have gone reasonably well, but they are almost bilateral or trilateral. On the wider concept of EU trade to the rest of the UK, they have not gone as well, and have certainly not been directed through the DfT, so it is not as widespread as we would like it to be.

Q30 **Lord Wigley:** This question is largely directed at Captain Parry, although other colleagues may want to come in. As has just been mentioned, much of the debate around the Brexit implications for ports has focused on Dover. Can you tell us about the challenges and opportunities faced by other major hubs, particularly by Holyhead?

Captain Wyn Parry: Broadly speaking, our issues in Holyhead are similar to those in Dover, in that we are very much space constrained. Holyhead port is built in the middle of Holyhead town, dividing the town into two halves. The A55 expressway brings traffic to Holyhead port from the north-west, stopping about half a mile from the port entrance. That half mile is a single carriageway road that leads to our check-in booths; any delay at the check-in booths impacts not only on the port itself but unsurprisingly on local traffic, which finds it difficult to manoeuvre from one side of the town to the other.

Apart from the space constraints, we have issues with ferry timetabling. Delays for any customs checks required will probably affect ferry schedules, which are very important to us. What we do not have in Holyhead is space to expand, because we are right in the middle of town, so we have no wriggle room whatsoever.

Lord Wigley: No doubt you are in discussion with the Welsh Government about the possibility of getting land beyond Holyhead for that purpose. Has any preparatory work been undertaken at Holyhead for the reintroduction of border checks?

Captain Wyn Parry: No specific work has been done. We have engaged with HMRC and had discussions. HMRC has brought out technical notices, and we have further discussions planned, but there have been no specific real infrastructure changes, if that is what you are alluding to.

Lord Wigley: If there was a need for those, could they be delivered within the timescale?

Captain Wyn Parry: It would very much depend on what was being asked. Infrastructure projects are notoriously slow to deliver, but it depends on the quantum.

Lord Wigley: Yes, indeed, and the timescale. On another aspect, it has been mentioned that there is a risk that traffic might be displaced from Holyhead to other ports in the UK or, indeed, to direct access ports on the European mainland. What are your concerns about that?

Captain Wyn Parry: There are concerns, but the freight that travels through Holyhead is what we call "just in time". It is traffic that needs to get to market in Dublin quickly. Diverting to Rotterdam, for example, and a sea voyage from Rotterdam to Dublin, would be for a completely different cargo type.

Lord Wigley: Would that be equally applicable for goods for the European mainland coming from Dublin via the UK at the moment?

Captain Wyn Parry: Yes, I suppose it would be, for the vast majority.

Q31 **Baroness Randerson:** In the future relationship White Paper, the Government indicated that they intend to continue co-operation with EMSA. From your perspective, how crucial is EMSA's role and what is its importance in the maritime industry? Will the Government's proposed position on co-operation with EMSA be sufficient? Is co-operation good enough, or do you have to be a member?

Mr Neil Glendinning: In my other job as chief executive of Harwich Haven Authority, I can say that it is absolutely core to our being. It is all about the safety of navigation. The current co-operation with EMSA extends to SafeSeaNet and CleanSeaNet, both of which are important. SafeSeaNet monitors vessel traffic and dangerous goods flying around European waters, and into and out of the UK. One aspect of SafeSeaNet is THETIS, the arrangement whereby the MCA and partner organisations in Europe co-operate and exchange information, particularly on defective vessels, banned vessels or high-risk cargoes.

On the last part of your question, the current proposal from the Government excludes membership of EMSA and participation in SafeSeaNet, CleanSeaNet and, very importantly, THETIS. Yes, the MCA could gather that information, but it would be duplicating a process that is already in place, and it would not necessarily be as inclusive, widespread or efficient as the current arrangements.

Mr Gavin Simmonds: I endorse my colleague's comments. In the UK chamber, we have had extensive discussion with all our members, who are highly reliant on established EMSA programmes. Its reporting disciplines are integrated into company systems, and there appears to be a general benefit. Exchanging information as we currently do with EMSA with the MCA or a new UK agency would involve the development of new IT infrastructure and reporting arrangements. We have seen no signs that preparation is being made for that or, indeed, for funding it. The National Audit Office identified a requirement of £8 million for IT, and there is very little time for the introduction of a programme of that size to cover those exigencies.

Baroness Randerson: How long do you think it could take to get the new IT? Until you get it, are security issues or environmental or safety issues most at risk?

Mr Neil Glendinning: All three; they are of equal importance. On security, it goes without saying that the vessel traffic monitoring system is absolutely central to maritime security. The ship safety, defective ship and ship reporting aspects are absolutely essential to the safety of navigation; they play an equal part.

Baroness Randerson: Does anyone have an estimate of how long it would take to get the IT systems to deal with some of those problems?

Mr Gavin Simmonds: It is important to make it clear that these are state provisions. There was apparent benefit in contributing to a number of European-wide schemes, while for the shipping frequenting European trades there was benefit in reporting only once or having linked reporting. There is a question of scale, if we do it nationally, the responsibility for delivering the infrastructure, and providing the IT and its operators, will be for government. The same question applies as it does more generally in any Brexit discussion: where will the bill end up? It is fine for us to say that industry will not be paying for it, but there is rather an expectation that at the end of the day we will. Ultimately, we will pass that cost on to the consumer, so there are knock-on effects of cost in any of these projects.

Baroness Randerson: That is very interesting, thank you.

Q32 **Lord Lansley:** Earlier this year, when the Commission published its notice about the consequences of our withdrawal, it said: "As of the withdrawal date it will no longer be possible to provide maritime transport services in accordance with" the relevant EU regulation "if the conditions for constituting a Community shipowner are no longer fulfilled, unless national legislation allows access to cabotage to vessels flying the flag of a third country".

Could you tell us, first, what you know about the extent to which UK-flagged shipping takes advantage of cabotage rights elsewhere in the European Union? Secondly, could you move on to what reciprocal arrangements you hope to achieve, not just under a no-deal scenario but in the context of a deal?

Mr Gavin Simmonds: It is important to recognise that cabotage is a long-standing and perhaps contentious term. It has almost become state of art in the development of European policy. Over the last decades, restrictions on cabotage have been comprehensively dismantled in EU states, allowing all vessels of all EU flags to trade in each other's waters. The UK shipping industry has got used to that commercial freedom and cabotage restrictions are present these days only in a limited number of locations, where member states operate their own ferry services, for example, in cabotage trades to outlying islands. We have settled into a status quo; there are a few islands where those trades remain in national control, controlled by what we call cabotage rules.

The UK has not had restrictions on cabotage for about 180 years, so it is not something we have done. In our analysis, it is difficult to see the benefit of reverting to a closed market approach in shipping when for several hundred years we have had the most open market. We believe that we should compete on the basis of quality of service, safety and all the other standards that the UK flag and UK shipping companies operate, ultimately, commercially. We are content with that commercial reality.

Participation of UK-flagged ships in EU trade is not particularly large. We have a very broad shipping market and are active across all the different shipping sectors. If there is one where we are not particularly active, it is coastal shipping and cabotage trades. Two-thirds of the UK's shipping revenue is generated by third-country trade on international routes to other countries in the world, so it is a fairly narrow band of interest. However, if we saw the introduction of cabotage restrictions in a negotiated or no-deal outcome, it would threaten commercially a number of contracts for UK shipping companies engaged in the sort of trades where there are multiple port calls in EU countries, with ships dropping off little bits of cargo along the route. Ferries are a different case and, again, are not of particular concern, but that would be for my colleague, Mr Hampton.

Lord Lansley: I appreciate that we are very liberalised in this context, but do the same principles and issues apply in relation to inland waterways, along the Rhine for example? Is it simply that we do not have UK-flagged vessels conducting trade along those inland waterways?

Mr Gavin Simmonds: It is not a UK speciality, so it is not so much a question of market access. If you operate on inland waterways, it is easier to have EEA or EU crews. There is an important point about the commercial disadvantage that UK shipping operates under in those trades. Elsewhere there are quite generous provisions for the support of shipping in both the short sea context and inland waterways, but they are not really replicated in the UK. Because the cargos in short sea shipping and inland waterways are very small, the margins involved are small, so the competitive advantage is very fine, and I am afraid the UK is at a commercial disadvantage at the moment.

Lord Lansley: I interrupted Mr Hampton on the subject of ferries, cruise liners and so on.

Mr Ian Hampton: I echo a little of what Gavin said, but perhaps I would say it a bit more clearly, accepting that cabotage is a slightly contentious issue. On principle, we would not like to see cabotage restrictions return or be re-established. The ferry sector operates today on the basis of the commercial and competitive world we are in and we can use the freedoms that we have for commercial advantage, as any company would do to try to attract business. We live with a degree of freedom in a competitive landscape.

As an industry, we operate in a somewhat pan-European way in that context. We do not operate solely on inland waterways—you picked up that example—or in domestic trade, where for some there may be an advantage, but, for us, operating in a pan-European way, there would not be that advantage. Yes, you might protect a small minority of business, but the wider business could be at risk, and we would lose the freedom by which we operate today. That would be the concern if ever we saw cabotage restrictions re-established as a principle or looked at as a measure to which we should give more consideration.

Lord Lansley: I do not detect a wish on anybody's part to reintroduce cabotage restrictions. Since 1849, we have done without it. The issue is that we will become a third country and, in so far as there is flag-based cabotage in some member states, it could impact on us. Presumably cruise liners and even ferries operating to an EU state will have an EU entity for the purpose.

Mr Ian Hampton: I understand where your question is coming from, from a reciprocal point of view. If today you are operating within the EU and you have an EU flag, you have absolute freedom to trade, barring some specific trades, such as Greece and others. There continues to be a lot of benefit from those freedoms, which may link to a later question on flags, but are there, as Gavin said, specific examples where the UK is challenged by operating under a UK flag in a cabotage area? I am not familiar with any.

Mr Ross Wombwell: For the small commercial sector, we foresee significant impacts. We have a fleet of small commercial pleasure craft that operate in the Mediterranean basin, estimated to be in the range of between 2,000 and 2,500 vessels. Given a no-deal Brexit, we are unsure how those vessels would be treated. We also have a large superyacht sector, which operates commercially as well. We foresee no particular issues with that sector; it is really about the small commercial vessels.

Lord Lansley: Are those often charterparty-type contracts?

Mr Ross Wombwell: Exactly, yes; short-term, one-day-a-week charters.

Lord Lansley: Have you seen any anticipation of this by your members in the Mediterranean establishing themselves under a local flag rather than a UK flag?

Mr Ross Wombwell: The problem for small craft is, in effect, their cost and value under the different taxation systems in different European states; it is about having that ability. The choice of the UK flag is very often made for particular reasons, and the additional responsibilities for small commercial vessels under the flag state requirements of other member states come under a completely different system.

Q33 **Baroness Noakes:** On the UK flag, what are the implications of Brexit for existing and future registrations where EU or EEA interests are involved?

Mr Gavin Simmonds: It is a question of how far we take the answer. Our principal concern at the outset is for a number of UK-flagged vessels in foreign ownership and on the UK register, on the basis of the UK being an EU flag. Those companies benefit from a specific tax arrangement, a fiscal arrangement approved by the European Commission under its state aid guidelines, known in the UK and elsewhere as the tonnage tax regime. The vast majority of EU ship owners, if I can call them that, participate in a national tonnage scheme, either their own tonnage tax scheme or that of a neighbouring or other member state. There are complex rules about how you maintain your flag balance in a major international trading fleet.

When the UK ceases to qualify as an EU flag, those proportions will change overnight, and that will require several major companies to evaluate the prospect of moving ships from the UK flag, which will not qualify, to EU flags, which will qualify for EU treatment. We have good dialogue with the UK ship register about this problem; we know that it is critical, although it is not a critical problem for the UK Chamber of Shipping or, necessarily, our members, to be frank. It will affect the tonnage on the UK ship register, the reputation of the UK flag and the attractiveness of the UK as a whole to accommodate UK businesses. We have healthy dialogue with DG Competition in the European Commission, and are engaged in some exchange of data about the size of the problem. We are being asked for further information.

It is an area that probably needs more attention in the negotiation. Our understanding at the moment is that to effect a change, and in some way allow the UK flag to be recognised in some sort of mutual way, or compatible—it would probably be going too far to say recognised as an EU flag—would mean moving it significantly up the negotiation agenda. It is a question of whether shipping has the critical mass to achieve that change. It is a goal that a number of EU member states, or colleagues in member states, would push as well, and an area that we are looking at very actively at the moment.

Baroness Noakes: Although I think you have just said that we will probably not achieve it, the UK Chamber of Shipping wrote: "The UK Flag should continue to be recognised as an EU Flag for fiscal and environmental purposes”. What does that mean?

Mr Gavin Simmonds: That goes back to the relationship with EMSA. We anticipate that it will feature largely in future trade negotiations. There are several non-maritime issues that will come into any future trade negotiation, such as state aid, social conditions and environmental controls. The trend is for those additional disciplines to be included in the trade negotiations, and we see those linkages as challenging.

Lord Lansley: I do not recall the Government’s White Paper on the future relationship suggesting that this was a negotiating objective of the Government. Did they refer to it at all?

Mr Gavin Simmonds: No, it is not a negotiating objective.

Lord Lansley: At the moment we are not asking for it, so the chances of getting it are nil.

The Chairman: I should know the answer to this. Roughly speaking, what proportion of EU shipping is UK flagged? Do we know that?

Mr Gavin Simmonds: I do not think I can answer that question; the data are being compiled for the Commission as we speak. It is interesting that the Commission asked for those data, and we welcome its engagement. I do not know the answer, but it may be helpful to say that ship owners generally spread their tonnage under a maximum of three flags—a third, a third and a third—so that they would work with three different Administrations and recognised organisations for the classification of vessels, and three different legal regimes might be the maximum. It is perhaps a third.

The Chairman: When I was a Transport Minister 20 years ago, we took measures to make the UK flag slightly more attractive. I do not know whether they worked, but we are pretty competitive with most of our EU rivals, competitors or partners, even if we do not know the precise proportion.

Mr Gavin Simmonds: Yes, we are competitive as a flag registry. It is more important that our attention is focused on ensuring that the UK remains an attractive location for international businesses and the development of international trade, and to have major international trading companies operating in the UK, preferably headquartered here. In the work we have done with the Department for Transport and the UK ship register, we recognised that the UK has a very strong legal base. The attraction of London as a global centre for shipping is unquestioned, and the UK flag has a strong reputation as a quality flag, and for safety and environmental performance.

There are a number of very positive aspects, but we need to achieve a competitive edge in an international situation. Our fiscal regime is competitive at the moment, but it is a question always of protecting that competitive edge against fast-developing economies around the world. If we are to retain our position in international shipping, we have to recognise that the competition is not just from the EU but particularly from the Far East.

Q34 **Lord Rees of Ludlow:** To what extent would you wish for or expect divergences from EU regulations if we were no longer in the EU? Your paper mentioned in particular the ship recycling regulations, and there are issues of pollution and environmental standards. Some have mentioned the possibility of more flexibility and support for the shipbuilding industry. Can you comment on the ways in which you would wish for or expect divergences?

Mr Gavin Simmonds: To be clear, in the international shipping industry, we are governed at three levels. At international level, we are governed by the International Maritime Organization, established here in London, which is very good for our national shipping reputation. At regional level, until now governance has been through the European Commission; and we are obviously subject to national legislation. Peeling back the layers of shipping legislation, there are a lot of layers, and a lot of things in the environmental and safety area that we have become used to doing. We have generally agreed with the Department for Transport and the UK Government on increasing regulation to provide for safety, particularly of passenger services and for shipping generally.

Specific issues where we might achieve some freedom or a reduction in the administrative burden have been looked at. We would like to be freed from some of the restrictions of EU recycling, which is a little administratively complicated and restrictive, and prevents us doing things outside the EU. The UK has always had a much more international approach to shipping.

Earlier in the session, we covered points about the benefits of belonging to the environmental monitoring programmes. It would be difficult to find areas where a reduction in the environmental burden would be attractive to shipping, and our work to date has not identified many such areas.

Mr Neil Glendinning: To extend your question to the ports sector, one possible gain that may come out of Brexit relates to the EU port services regulation, which comes into force just a few days before the current 2019 Brexit date. That series of regulations was introduced by the EU and particularly aimed at the ports industry in the EU, which is not run on the same competitive basis as the ports industry in the UK. From the ports' perspective, and the representative view of the British Ports Association, it is entirely superfluous to the ports industry in the United Kingdom. If there is one priority benefit from divergence, that is the one we should focus on.

Baroness Donaghy: We have an enormous array of expertise before us today. What efforts, if any, are you making to persuade the Government to change their mind about the importance of EMSA?

Mr Neil Glendinning: The BPA has presence through the DfT in engagement at relevant levels. I do not have specific information, but we are engaging through the BPA and the DfT at the relevant levels to address the issue of continued need, particularly on the aspect that I highlighted earlier—the SafeSeaNet, CleanSeaNet and THETIS arrangements. We are pursuing that, but I am afraid that I cannot answer you specifically on the extent. I cannot give you that information.

The Chairman: If you have more information on that, perhaps you can get back to us.

Mr Neil Glendinning: I will pick it up and ascertain it with Richard Ballantyne at the BPA and report back to the Committee.

Mr Ross Wombwell: For the superyacht sector, we can see opportunities with regard to divergence. The superyacht sector is very much a global industry. The general flagging of vessels is currently outside the EU; they are non-EU flags, and they still operate within EU waters when necessary. There are a number of areas where we foresee opportunities, such as the marine equipment directive and the European ship recycling regulations.

Lord Wigley: Mr Glendinning referred a moment ago to regulations coming in a few days before the scheduled 29 March date. Are those largely irrelevant for us because we have already reached the standards? To what extent would they impose additional duties? Will we need to apply them for those few days, and, if we have a transition period, is there a danger that we would need to apply them during that period?

Mr Neil Glendinning: The unified view from ports is that, no, there is no need. The regulations centre on competition, which does not currently exist in Europe. It absolutely exists within the UK; the competitive structures are there, and all the ports compete with each other. From the ports' perspective, it is superfluous regulation—another level of regulation that is not needed in the UK.

Lord Wigley: Would we need to abide by it after 29 March if there is a transition period?

Mr Neil Glendinning: Yes, we would. The ports already abide by it anyway, without the addition of that regulation.

The Chairman: Are there any further points on that?

Mr Ross Wombwell: To go back to the UK flag no longer being an EU flag should there be a no-deal Brexit, we have to understand that there are 60,000 UK-flagged recreational craft in Europe. At this stage, we are unaware of the situation of those vessels, should there be a no-deal Brexit. Some of them have part 1 registration through the UK ship register and some of them have part 3. There is certainly a question that we would like answering with regard to whether the part 3 registration would be sufficient for EU member states to allow the temporary importation that non-EU-flagged vessels have for 18 months when entering.

Q35 **Baroness Donaghy:** We have had evidence to the Committee that free ports and free trade areas are a business opportunity. Could you elaborate on what precisely free ports are, or would be, and in your view whether they really would be a business opportunity?

Mr Neil Glendinning: From a ports perspective, the free ports idea has some mileage. It is of limited use throughout the UK, where most of the ports are gateway ports that rely heavily on the effective throughput of trade. The free port concept is to establish a bonded area, whereby value can be added to a product by construction or finishing. That would apply to a very small number of ports in the United Kingdom. The vast majority of ports in our port industry act as gateways, with a flow of trade both inwards and outwards, and would not benefit as much from the free port concept. One or two possibly might; Teesport and Humber, for example, have large areas of estate with some established industrial processes, where there would definitely be some benefit.

Lord Lansley: Can I give a relevant example? A lot of fish from the UK fishing fleet is exported to EU markets. If we created a free port or free zone, we could add value by processing before re-export, without having to worry about rules of origin, or anything like that.

Mr Neil Glendinning: That would be one advantage, certainly.

Lord Lansley: Does it require the EU to agree to it?

Mr Neil Glendinning: No, it would be under UK legislation. It is worthy of note that, at the recent ports conference, the representative from Grimsby pointed out that the vast majority of the fish handled at the port of Grimsby is imported from other EU fishing vessels at the moment.

The Chairman: That is a fishing policy issue. Does anybody else want to come in? I assume that Holyhead does not have room for a free port.

Captain Wyn Parry: As was pointed out, it is all about the land. There are other ways to create the free port scenario—customs warehousing, for example, which is not as land hungry.

Mr Neil Glendinning: That currently exists. Bonded warehouses exist and are a much cheaper option. The only instances where it would be of use are where value is added through construction or finishing.

Q36 **Lord Aberdare:** This is a sort of catch-all question. Are there any issues that we should have raised with you that we have not done, or any thoughts that have occurred to you, particularly in relation to potential opportunities? Last year, Chris Grayling announced that the Government would deliver a strategy to foster the growth of the maritime sector post Brexit and launch a "British shipbuilding 'renaissance'". What might a British shipbuilding renaissance look like and what would its benefits be?

Mr Gavin Simmonds: Thank you for the question. As we are ship owners, I am always hesitant to talk about shipbuilding. It is important to stress that, in our membership, our companies are committed to market access on an international basis. They have thrived on the ability to obtain ships at the cheapest price in a global market. Among our major corporate members, operating on an international basis, there is strong support for that continued approach. Any move towards protectionism, closed markets or market distortion by subsidy would be an immensely retrograde step.

That is not to say that we do not recognise the value of developing technology and creating new jobs. We would be enormously excited were there to be a renaissance in coal mines, but there is none, and it is difficult to see that there would be a renaissance in shipbuilding. However, we would welcome an expansion of the shipbuilding that still exists in the UK, much of it funded by government for defence purposes. We welcome the expertise and the jobs that that offers.

Do we see a model whereby the UK could compete internationally for major shipbuilding in future? Probably not, but that is not to undersell the opportunities for technology or high-end, UK-led expertise in this area, which may promise opportunities. We would see the future in that high-value area.

The Chairman: I have to declare an interest as a long-standing member of a major shipbuilding union. When I first joined, it had a large number of members in the shipbuilding industry. These days, there are virtually none, or very few, but those who are there are probably at the technological cutting edge, so maybe there is a chance, although mainly on the back of defence rather than commercial work.

Lord Lansley: Chris Grayling also said: "Brexit Britain will be the best country in the world to do maritime business". One could argue that, pre Brexit, we are the best country in the world to do maritime business. Do you agree with that? In either case, is there some way in which we can improve the environment in this country post Brexit that is not available to us now? Fiscally, we could do it now. What does Brexit offer by way of an opportunity to improve the environment?

Mr Ross Wombwell: The superyacht sector is a growth sector at the moment, with increased growth year on year. There are real opportunities for divergence, should that be the way it goes. We are a global leader in design in the superyacht sector, but not in construction at the moment, and there is an opportunity, should we move away from EU directives, to enable that side of the industry to thrive in the UK.

At the IMO, the UK is often led by EU interests, and Brexit will give us an opportunity to lead again, specifically in the superyacht sector, where we have always been a global leader, through the development of the large yacht and passenger yacht codes. I hope we will have the freedom to do that again in future.

Mr Ian Hampton: This is not to counter any colleagues on the panel, but the challenge with the maritime sector, depending on how you operate, is that it is international and pan-European. There are pros and cons in choosing to diversify away from EU common standards. It may create some opportunity for the UK flag and other areas we have touched on, but sometimes moving away from a degree of commonality creates another challenge.

Where an international ship owner chooses to own their vessel for fiscal or taxation reasons has an advantage, but it can also have a disadvantage, depending on where they choose to place the tonnage. We should not forget where we are heading, although we have many questions still to be answered about Brexit, and that ultimately it will become an international voyage to and from the United Kingdom, so owners will not necessarily need to base their fiscal assets in the United Kingdom and/or have a UK flag. There may be a benefit in making it more advantageous to do so, but by doing so you lose flag equality. I am going round in a circle, but it is a very delicate question.

The other side of my thought process, to share what is going on in my mind, is that the UK is a large maritime nation. We have by far the largest number of seafarers in the EU community, upwards of 30,000. Correct me if I am wrong in my statistics. There may be opportunity, with certain flag issues, to look at creating greater employment around the seafarer, rather than necessarily aspiring to areas of shipbuilding in isolation. There may be greater opportunity to look at what can be achieved. We have to be careful. We operate in a very competitive world, and we have to be competitive based on what our competitors are doing, so if they choose to operate in a certain way on an international voyage, sometimes we may have to follow. That is one to watch very carefully.

Mr Neil Glendinning: On possible areas that could be improved, from the ports' perspective the competitiveness of UK ports is undoubted, but the one financial disadvantage under which UK ports operate is in the area of government support of national infrastructure. By and large, the infrastructure of EU ports is developed and financed by the state; in the UK, it is entirely within the industry, so some focus on rebalancing the national contribution to nationally critical infrastructure would be very welcome to restore balance in the competitiveness of the ports industry. If obstacles are to be placed in the way of trade flowing through UK ports, increased charges because of infrastructure costs should not be one of them.

The Chairman: I hear what you say. In that context, we have steered clear of talking about customs issues, because they have largely been covered by a different sub-committee. However, if there are to be delays in our ports, do you think that you are getting sufficient support from government to face that contingency? To some extent, that goes back to technology.

I am cognisant of the fact that people are talking about the M26 and Dover, in particular. I guess the same problem applies in Holyhead. Do you think that you are getting enough support and an indication that at least short-term infrastructure commitments will allow you to meet that problem?

Captain Wyn Parry: The support is beginning to ratchet up. We are having more and more dialogue with the UK Border Force. I see it starting, but I cannot yet fully answer the question because I do not know what the specific requirements will be. At least there is good dialogue.

Lord Wigley: It might be helpful, Chairman, if there are developments, if we could be kept abreast of them.

Q37 **The Chairman:** Yes, that would be helpful. Are there any further points that you wish to register with us?

Mr Ian Hampton: I would like to go back, if I may, to the second question and be a little bit more forceful from a higher level about the implications for hubs such as Holyhead. I am sorry to bring up this point and not to dance around it, but it depends on the answer to the question about borders. I implore the Committee to bear in mind that a political decision could very much change trade flows.

In our industry, the ro-ro sector grows 1% or 2% incrementally every year; trade flows do not change so much. The scenario we face, depending on the relationship we agree with the EU, could cause significant movements in trade flows. I would like that to be borne in mind, because it is the single biggest impact. We cannot move our hubs; we cannot move the port of Holyhead. They are intrinsic assets that create a lot of local employment. If trade no longer comes into those ports through whatever decision we arrive at, it could create alternative trade flows around the UK.

Lord Wigley: Does that mean that it is essential that we get friction-free movement through the ports?

Mr Ian Hampton: It is essential. If I may be so bold as to stick my neck out, it is hoped that any deal we arrive at will be as frictionless as possible, so that we can continue to operate in the same relative framework as we do today.

Mr Gavin Simmonds: Can I add a few words to endorse what my colleague said? Before I do that, I now have the UK flag tonnage percentage in the EU. The UK flag is obviously a very significant EU register at present and has 7% of the gross registered tonnage of the EU. The figure I gave in an earlier answer was very much an off-the-cuff estimate of how an individual company might distribute its tonnage between different flags; a single owner would not have ships under all EU flags.

On a further point, I notice that the maritime industries association is not here. I am concerned about my answer on shipbuilding. I certainly did not mean to be flippant.

The Chairman: I should have warned you that you are on record.

Mr Gavin Simmonds: I wanted to emphasise the importance of technology. Because other colleagues are not here, it is important to draw attention to the enormous export market that the UK has in maritime technology, the things that go into ships where they are being built. We should not underestimate the value of that sector. Again, it is technology-led.

On short sea routes and the possible impact of a no-deal outcome, I re-emphasise the market stability question. For decades, we have moved trade through our ports without controls. We have very good dialogue with the Government about not reintroducing new controls in ports that have been developed to operate without them. We are quite confident that, with technology and trusted trader schemes or authorised economic operators, there are ways of moving out of the port area the inspections and checks that may be required, so that we can conduct checks and maintain control over imports, tariffs, health inspections and security and safety checks, but they can be completed away from the port area. Technology can help with that. Dialogue with government is very strong and good in that complicated area.

It is important that the Government do not, in a no-deal scenario, seek to influence market behaviour. My colleague made the point that the way the existing market functions delivers frictionless trade. We would see evolution in trade as a healthy development, but any sudden politically driven shifts or efforts to influence market behaviour would be unwelcome.

Baroness Donaghy: At some stage, would it be possible to get a breakdown of all the gross registered tonnage to see where the major players are, if we are only at 7%?

The Chairman: Yes, it is a lower figure than I was anticipating.

Mr Gavin Simmonds: Yes, I can supply that. Through the European Community Shipowners' Associations, we have available all the EU shipping statistics. I can send that to the Committee.

Q38 **The Chairman:** That would be helpful. I am afraid that we are at the end of our time, but something you just said has sparked me off. This is a question for Captain Parry. A lot of the high-level discussion is about borders between Britain and Ireland. EU officials make the point that there are checks for certain goods, basically, livestock and food based on livestock. Holyhead must be a recipient of some of that. How significant a friction on movement from Ireland is the existence of livestock checks at the moment?

Captain Wyn Parry: There are no checks at the moment, and we have no real idea what checks are going to take place.

The Chairman: There are literally no checks, even though there are regulatory differences.

Captain Wyn Parry: There are very few checks. There is an occasional vets check. The interesting thing is that 35% of the goods that come through Holyhead are some sort of agriproduct, so it is a significant part of our trade. Engagement with Defra at the moment is low key, and we are slightly disappointed that we have not had more information from the department, but perhaps it is waiting for guidance. I do not know.

The Chairman: This could become a bigger issue.

Captain Wyn Parry: It is a very important issue, yes, and of course we have no idea what the Republic of Ireland is going to do; there has been no engagement at all.

Baroness Donaghy: Apparently, a case of BSE has been announced in Scotland.

The Chairman: Oh, God.

Lord Lansley: Oh dear.

The Chairman: Thank you all very much indeed. I am sorry to have detained you slightly longer than your diaries were anticipating. My thanks to you; it has been very helpful. As I said, if there is anything more that you feel we should know, please write in or contact the staff.