HOUSE OF LORDS

Select Committee on the European Union

EU Internal Market Sub-Committee

Corrected oral evidence: Future UK-EU transport arrangements

Thursday 1 November 2018

10.15 am

Watch the meeting

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

Evidence Session No. 5 Heard in Public Questions 39 - 46

Witnesses

I: Mr Duncan Buchanan, Policy Director, Road Haulage Association; Mr Clive Mills, LLP Designated Member, Euro2Go; Mr James Hookham, Deputy Chief Executive, Freight Transport Association; Mr Mike Hawes, Chief Executive Officer, Society of Motor Manufacturers and Traders (SMMT).

Examination of witnesses

Mr Duncan Buchanan, Mr Clive Mills, Mr James Hookham and Mr Mike Hawes.

Q39 **The Chairman:** Thank you very much for coming to see us. As you will have seen, things seem to be hotting up a bit on the Brexit talks, and obviously transport is on the front line in wanting to know what happens on 30 March. We would be glad to have your views on the degree of preparation for both a deal and no deal.

The first question is about your engagement with the DfT over this period. In answering it, perhaps you would introduce yourselves. Do you feel that the Government have taken sufficient note of the needs of the road haulage industry and transport in general in the run-up to taking decisions on Brexit?

Mr James Hookham: I am the deputy chief executive of the Freight Transport Association. Thank you for the opportunity to supplement our written evidence by answering your questions today.

I was straining to answer your question. I would characterise our relationship with the Department for Transport as tense and difficult because both sides, certainly officials as well as industry, know what in reality a no-deal Brexit would mean in relation to the permitted numbers of vehicles able to cross the UK-EU border in future. I assume the Committee is familiar with that scenario.

Given the circumstances, the officials have done a valiant job in attempting to draft the necessary legislation to prepare for that contingency and other matters that arise from it—for example, trailer registration—but, like us, I think they realise that the plans they are preparing to put in place would probably not make a significant difference to the virtual collapse of trade across the channel in the event of a no-deal Brexit, because of the unavailability of sufficient numbers of permits to support current levels of traffic. That is not just British trucks going to the continent and the Republic of Ireland; it is EU 27 vehicles coming here.

The critical path has been to try to persuade Ministers of the reality of that scenario. I think they have gradually come round to accepting our view, or have thought it through for themselves. They have done the sums and worked out the numbers. We have certainly seen the necessary pace and vigour in preparing and bringing through legislation; the Haulage Permits and Trailer Registration Bill was the first principal piece of legislation concerning Brexit to receive Royal Assent.

Both sides are aware of just how difficult and challenging it will be if there is no replacement arrangement or agreement in place to continue the mutual recognition of licences and driver qualifications, and the frictionless trade that we were promised in the Prime Minister’s Lancaster House speech in January 2017.

Mr Duncan Buchanan: I am the policy director for the Road Haulage Association for England and Wales. I have been doing a lot of the leading on Brexit for the Road Haulage Association. We represent hauliers operating about 250,000 vehicles. We have 7,000 members, ranging in size from large companies to very small SMEs and one-man operations. We represent a wide range of the working road haulage fleet.

We have just over 100 working days to go and we are not prepared for 29 March. We are nowhere near prepared. Our industry is not prepared; the European industry is not prepared; no one is ready to roll with this next year. Deal or no deal, we need a transition period to make any necessary adjustments. If we do not have it, there will be chaos. I wanted to say that at the very start.

It is very important that we compartmentalise the two really big cases. I am going to focus on no deal and no transition, but if we have a transitional period and a deal of any sort, with two years to implement it, that gives us a lot of scope to mitigate the worst of the possible impacts. That is why the RHA has been pushing very strongly that, deal or no deal, we need transition. The reason we need those things to be dealt with is that there are two fundamental, serious problems that cannot be addressed before next year.

The first is customs, where we are way, way behind where we need to be. There is no certainty on what the processes are for hauliers. The other is permits, as James has just mentioned. The ECMT permits are insufficient for the needs of the market. We estimate that the shortfall for the UK is 95%.

You asked how the Department for Transport has performed. It is mixed. In some ways, it has engaged quite positively; its door has always been open and it has listened to what we have had to say, but the pace and the dawning of reality have been very slow, as evidenced by the lack of preparation for Brock and Stack. It has been frustrating that the discussions have been couched in confidentiality agreements and confidential conversations where at times open dialogue has not been possible with our industry. We are frustrated as a sector in very many ways. The DfT is good in parts; it could have done much better and could have been on the case much earlier.

The Chairman: Mr Mills, would you focus particularly on whether the message is getting across to the relatively smaller firms?

Mr Clive Mills: I represent one of the smaller hauliers in the country. There are a lot of us. Those of us operating fewer than 20 HGV vehicles are classed as small hauliers. Over the last two or three years, I have been very privileged to be invited, with the RHA, to go to these meetings. Some of the time I get lost in the legality and the wording used, but, as a layman who gets on the road and drives the trucks, I agree with both my colleagues that we are totally unprepared. I am being asked by people in the industry what is happening and I say, “Nothing. I can’t tell you anything. Nothing is being laid down in stone for us to move forward”.

The prospect of a no-deal Brexit is frightening for me as a small haulier; if we have to go with the permit situation, the big guys such as DHL and TNT that we all know and use will probably get first look. That will go towards food and medical supplies. The business I am in is concerned more with entertainment—exhibitions, theatres and band tours—so we will be at the bottom of the tree.

Over 18 years, I have built up my business from a small van. I have worked very hard with my wife and youngest son to help me, with a lot of support from the industry. I mean this most sincerely and I am not trying to lay it on to dramatise it; if we have no deal, I do not see how I can survive, and that is a big worry for me. We have put in a lot of effort to get where we are. It is not only me; small hauliers work damn hard to provide all of us with what we have on our table in one way or another. From a loaf of bread to a car, it needs a truck. As soon as you break it down that stops, and it will affect everybody.

It is personally worrying. I have some good customers. They have asked me, "What's going to happen, Clive?" They call me the doom and gloom merchant because I say, "I can't give you an answer". I do not think the Government have an answer. I feel that, come March, they are just hoping something happens, and that we muddle our way through it. Nobody seems to know a damn thing; nobody knows what is going on. You cannot run a business not knowing.

Going back to permits, we do exhibitions in Milan in June. I have said I do not know whether I can do it. When they ask why, I say I do not know whether I will get a permit to run my lorry to Milan. They then have to go to their customers and say, "We're going to build the stand for you, but we don't know how we are going to get the goods down there". That is the situation we face on the ground.

The Chairman: In a moment I will turn to Mr Hawes, who obviously has a slightly different angle. You are all very much focusing on a no-deal situation. If there were some sort of deal, even a rather vague one, I think Mr Buchanan said that we could probably sort out most of these things by the end of what is currently proposed as a transition/implementation period. Is that the view of all of you?

Mr James Hookham: No. To be clear, when we say no deal, we mean no withdrawal agreement and, therefore, no transition period. Industry is preparing for that because that is what the Government are telling us. They are issuing no-deal notices; they are encouraging us to think that way, and, even if the trade associations are not, their members certainly are, so we are responding to the thought processes out there.

If there is a deal, about the only thing we get for the transport industry, as Duncan said, is another 21 months to sort out some of these things. We assume that, regardless of whether there is a deal and a transition period, the EU recognises that the UK has left the single market and the customs union on 30 March and is, therefore, a third country. The reason we are in this situation is that the Commission has resolutely refused to negotiate or discuss with the UK Government a replacement transport or aviation agreement until the UK becomes a third country. We assume that will happen on 29 March and that, therefore, those negotiations could begin, but it all depends on the nature of that agreement and the willingness of the Commission to start to discuss alternative arrangements to the default position, which will be the ECMT and bilateral permits that we are left with.

Mr Duncan Buchanan: May I clarify something, too? It falls along the same lines as James. When I say that we would have two years to do something, we need to know what to do. If we have a withdrawal agreement and we spend the two years after that deciding how we are going to run the border, we will be back here in two years' time. We need two years to implement whatever comes next.

Many companies will tell you that they need a lot longer than that, because of IT and what have you. If there is to be no deal, giving us an implementation period gives us a chance to mitigate the worst of the impacts. It will never be frictionless; it will never be where we are now, but at least we can put in place some of the things that would allow us to continue to trade relatively effectively. If we find ourselves here again in two years' time, looking at a situation where we are leaving but we do not know what custom arrangements we will have and what the permits are for road haulage, we will be in the same position as we are in now. We need to move on so that we can implement something.

The Chairman: Mr Hawes, presumably your primary comment will be about BEIS rather than DfT, but feel free to range over the whole of Whitehall if you wish.

Mr Mike Hawes: It is BEIS. I am the chief executive of the Society of Motor Manufacturers and Traders. We represent the motor industry in the UK: car, bus and truck manufacture and import, as well as the supply chain and aftermarket.

Brexit is one of a couple of existential threats that are before us at the moment. To characterise generally our relationship with government, we have been very clear from the outset that, whatever the future is, we are trying to replicate as many of the benefits that we have from being in the single market and the customs union. Like everyone else, no deal is just not an option. It would seriously threaten the viability of the industry in general, certainly the manufacturing industry.

On that basis, we viewed Chequers as a step in the right direction. It was not a panacea and there are still a lot of concerns, not least about what we are discussing this morning. To characterise the relationship with the DfT in particular, it has sought to try to provide as simple a transitional situation as possible for type approval, which we will come to later. However, the bottom line is that it will still add additional cost and burden, which will undermine competitiveness.

The thing that worries industry, as you can see from a lot of press reports at the moment, is that it is now enacting contingency plans, adjusting shutdowns, looking at different port facilities and looking at supply chains. It is looking, where it can, to advance production or stockpile production, which is very difficult. Such decisions are not taken lightly, but are in recognition of the very real chance of no deal, which would threaten the viability of the industry.

The Government have been very clear that business should make one change between the current system and whatever the future relationship is. One of the most galling things is that that is not happening. Companies are already spending money and putting in interim plans, and that is happening on both sides of the channel. It undermines the case for future investment in the UK.

The Chairman: Can we turn to issues relating to permits?

Q40 **Baroness Randerson:** All of you have spoken in very strong terms about the situation you are in. Going back to no deal, in the Government's notices, which I am sure you have read in as much detail and with as much interest as I have, if not a great deal more, they say: "Some old bilateral agreements between the UK and specific EU countries may come back into force if there is no deal". Do you think the use of bilateral agreements will work, or would it have limitations, and what would they be? You have been fairly clear, but maybe you would like to go into a bit more detail about the Government's contingency planning for the use of ECMT permits. You have already said that you would have a 95% shortfall, but are they doing what they can? Have they done it soon enough?

Mr Duncan Buchanan: ECMT permits are what the Government can do in a no-deal situation. They are stuck with a Community licence system that now allows international road haulage so that Clive and other companies can do business into and out of Europe and across Europe without serious restrictions. That is the existing system. ECMTs are a 1950s invention that allow you to have a permit with paper, logbooks and what have you, and there are only 1,000—the equivalent of 1,224 annual permits for UK lorries if every single one of them was a Euro 6. We estimate that probably up to 20,000 UK lorries will need permits. The ECMT permits are nowhere near sufficient, but they are useable now and that is what the Government have. It is a regulatory regime that exists and is not EU-dependent, so it is the tool in the locker.

As regards the use of the permits, they have done as much as they can within the constraints of the ECMT system. They have done annual permits for 984 and have broken down about 20% of them into monthly permits. That will give more permits, particularly early on, which may become important, because, if you have to agree bilateral permits with individual member states, you have to get them to discuss it. At the moment, because everything is subject to EU rules and negotiations there are no formal discussions about bilateral permits. Informal discussions are taking place and there is willingness on the part of EU member states and the UK Government to enter into bilateral agreements.

Analysis of previous bilateral agreements is that many of them can be restarted without major legislative requirements in either the UK or the EU. I believe that about 19 countries fall into that category. The rest will be much more complicated. Unfortunately, some of the complicated ones are our near neighbours. Belgium requires major legislative work, as do Denmark, Ireland and Hungary. They will be difficult to institute very quickly unless there is real willingness on both sides.

At the moment, informal discussions are going on about bilateral arrangements. Bilateral permits are clunky; each of them is different and you have to carry multiple ones, but if that is the way the system works that is the way it works. People will try to make it work, but it will be expensive and inconvenient. We also need to remember that EU operators coming in and out of the UK and transiting the UK to go to Ireland, for example, will also need permits of one sort or another. I am not sure what arrangements the Government are putting in place for non-UK permits, but bilateral permits may be one of them. The simplest way is to have a Europe-wide permit. That is what we have advocated.

Mr James Hookham: It is called the Community licence.

Mr Duncan Buchanan: It is currently called the Community licence, but in deference to Brexit we may have to call it Lemon or Oyster. Think of a name.

Mr James Hookham: I understand and applaud the efforts of officials in the Department for Transport to attempt to engage their opposite numbers in other member states. It is probably not something several generations of officials of the DfT have had to do, so there is perhaps very little, if any, collective corporate memory of how it could be done. These things have not really been an issue since 1992.

As Duncan said, it depends on how good a negotiation you have with the country. They are not a great deal of help at this stage because there is no clear number of permits that will be available. It would be subject to negotiation, and it is almost certain that it would still be insufficient to support current levels of trade and vehicles crossing not just the Strait of Dover but the Irish Sea and other crossings. I would certainly encourage those discussions to continue, but it is not a satisfactory situation by any means.

Baroness Randerson: When we were debating the haulage and trailers Bill, the Minister gave the figures for the permits and people asked him to repeat them. As you say, it is very much a 1950s response. You mentioned that it would be not just difficult but more expensive. In what ways would it be more expensive?

Mr Duncan Buchanan: Each individual permit will need to be paid for, in simple terms. Then there is all the paperwork and administration that goes with it. Clive might have to carry four permits to go to different countries. There may be different requirements and charges for different countries' permits. Everything is uncertain.

Lord Robathan: I absolutely accept, indeed the whole country and probably most of the European Union accepts, that there is great uncertainty. You portray a rather difficult situation. To whose benefit would it be to make trade either from the continent into the United Kingdom or from the United Kingdom into the continent as difficult as you are portraying? Who would benefit?

Mr Duncan Buchanan: No one benefits.

Lord Robathan: Who would want it to happen?

Mr Duncan Buchanan: No one benefits and, as far as I can see, the only people who want it to happen are politicians. I am not talking about just our own politicians but the entire political establishment, including the European Commission. This situation is ludicrous and absolutely stupid. It requires politicians to grow up a bit and realise the seriousness of the problem we are facing. The supply chains of companies, which account for 700 million tonnes of freight a year, are going to be savaged if we do not do something. It is the responsibility of politicians such as yourselves and those in the Commons and Europe to avoid a completely unnecessary and stupid disruption to the supply chains of Europe.

Lord Robathan: Essentially, we just carry on as we are doing at the moment.

Mr Duncan Buchanan: You have to make proper arrangements.

Mr Clive Mills: If we have no deal and look at the implications—maybe I am being a bit political—basically we have sold our car industry; all of it is owned by the Germans, so who gains? If we cannot supply the car industry with parts that come from all corners of Europe—

Lord Robathan: And America.

Mr Clive Mills: Everywhere. A container arriving at Southampton has to go on a lorry to go to wherever, but you would stop that supply chain. Industry is driven by people with shares and stocks; they like to see them grow. If we do not bring in the freight, BMW, or whoever, will say, "We're not making as much money as we did 10 years ago. What's going on? We have to pay so much to get this stuff into England. Why England? Why can't we build it in Bulgaria? They've got plenty of labour. That's a good idea". You ask what could happen. They do not give a damn about me, you or anybody; they just want the buck. At the end of the day, the pound rules. If they ain't making their pound, they're off. That is what will happen if we do not have free movement of goods across borders.

Perhaps I am a bit naive, but that is how I and a lot of other people see it. We have sold our furniture. We do not own the railways; we do not own the steel industry; we now own very little in this country. We have sold our soul. We own the house but not the furniture in it. If we do not play ball with them, they will say, "You know what. We don't really need you; you need us more than we need you, so we're pulling out". If they do that, God knows what will happen. That is how I see it. It is political; I get that.

The Chairman: That is very clear. I suspect it will be disputed that the whole of manufacturing industry is owned by the Germans.

Mr Clive Mills: But it is owned by others. We have sold a lot of it down the road; we have sold most of it. We have very little. What we have got, we need to hold on to. If we cannot supply the industries we have with the goods they need, they will fail; they have to.

Mr Mike Hawes: In defence of the industry and its varied nature, companies have made a long-term investment in the UK. Basically, we make European vehicles in the UK. It is part of a long-term investment, but you are right that that long-term investment is predicated on being competitive. Anything that undermines that competitiveness makes it much harder. Manufacturing operates on wafer-thin margins. Any additional burden, such as the obstacles you describe, poses a challenge to the manufacturing operations, as you describe them, and to their cost. When you get to that point, you look at your future investment strategy.

The Chairman: Let us assume for the moment that there is going to be some sort of deal and look at some of the aspects of the deal on road haulage.

Q41 **Lord Russell of Liverpool:** If we can be slightly optimistic, at least for a couple of minutes, and assume there is some sort of deal, I want to ask specifically about cabotage and cross-trade. Assuming that we have the opportunity to go into future co-operation arrangements with the EU in those two areas, to what extent should they cover cabotage and cross-trade, and how?

Mr Duncan Buchanan: Cabotage by UK operators in Europe is relatively limited, certainly much more limited than the cabotage that is done by EU operators in the UK. The other thing to appreciate is that cabotage is done in certain sections of business in the UK. Vast areas of haulage activity are not subject to cabotage. For example, there is no one moving concrete in European lorries because it does not transit through borders. Cabotage is very sector-specific.

We asked our members how they use cabotage in Europe at the moment. Quite a number of them say they make one cabotage journey and that is about it. Many do no cabotage in Europe. They definitely use it as the spirit of the law intended, which is as a way of repositioning vehicles and making the supply chain more efficient.

It is absolutely clear from my discussions with other EU member state trade bodies that there is no appetite to allow UK hauliers to have cabotage rights in the EU. If there is no appetite for it to happen in the EU, our contention is that we should not allow it here unless there is some sort of dramatic self-interest in allowing cabotage. There may be seasonal reasons; there may be special reasons why we would want to allow specialist vehicles to do cabotage. There may be reasons why we might want to allow certain vehicles to do cabotage. Car transporters are a perfect example where we allow extended cabotage now. It is very important for the supply chain for vehicles to have extra resource at key times of the year.

I would not want to rule out cabotage, but there is no appetite from fellow European countries at all, as far as I can see, to allow us to do cabotage there. It is an area where I would not concentrate a lot of resource in negotiating with our fellow Europeans in a deal situation. If it became a deal and cabotage was allowed under EU rules, fantastic, but I do not think that is where our partners are at.

Lord Russell of Liverpool: And cross-trade?

Mr Duncan Buchanan: Cross-trade is much more important, because complex things happen. Goods are picked up in one country; they go to a second country and then they are all part of a cohesive supply chain. Cross-trade is really important. Many of our old bilateral agreements allowed cross-trade, but our position is that in a deal situation we would like an agreement that allows unlimited cross-trade for European hauliers coming into the UK, and the same for us in Europe. That would be a good and reasonable outcome. Anything less would add huge complexity. Cross-trade is very strongly supported; cabotage is supported, but I do not think it will happen.

Baroness Noakes: Is there not greater interest in EU operators doing cabotage in the UK than us doing cabotage in Europe?

Mr Duncan Buchanan: Yes.

Baroness Noakes: Do they understand that there is reciprocality?

Mr Duncan Buchanan: The politics is not quite that. Many western European countries and haulage organisations are very anti the current European cabotage rules. It is hugely controversial in the European Parliament under something called the mobility package, and there is a lot of protectionism in western European states against cheap haulage from eastern Europe. I believe that is the reason why there will be no possibility of a cabotage agreement. Although some of the eastern European hauliers would be very much in favour of allowing us to cabotage in Romania, they know it is about them cabotaging here. The French and the Germans are not in a mindset to take on cabotage.

Baroness Noakes: Because their agenda is against eastern Europe.

Mr Duncan Buchanan: Their agenda is already against it in Europe because they feel there are elements of driver exploitation. They are right; there is a lot of exploitation of eastern European drivers and it is unacceptable.

The Chairman: Could we move to regulation more generally?

Q42 **Lord Aberdare:** I ask this with some hesitation. Are there any cases where it might be beneficial for the UK to diverge from EU rules on road transport? At least two of your organisations specifically said there were few, if any, rules from which you would want to diverge, but we have heard there might be some benefits in areas of driver licensing, permit arrangements or the working time directive. Are there any benefits you would like to see that would result from divergence?

Mr James Hookham: I would distinguish regulations that set standards. It is fair to say that over time the UK has been the source, or at least the inspiration, for a lot of standards in Europe. We pretty much exported our O licensing system—our operator licensing system—to Europe, so we recognise a lot of the safety standards already.

In my experience, what has frustrated our members as they have discussed successive waves of European legislation over the years is how detailed and specific directives and regulations are in stipulating how those standards are achieved, or the administrative arrangements that the Government have to put in place to deliver those standards. Our list would include trying to find sensible economies and efficiencies and avoid duplication; it would be to sort out the red tape, rather than necessarily abandoning the concept of standards for licensing or roadworthiness testing. It is about finding a British solution for the application of those rules in Britain.

Some of the various cards and documentation that a driver has to carry could with modern technology be combined, if not put on to a phone app in this day and age. We have already heard how small a proportion of the British haulage industry travels abroad compared with the numbers of vehicles serving the domestic market, so we thought it was a little excessive for transport managers to go through the international part of the course when it was brought in by the EU.

Although it is a bit of a step, when the working time arrangements were brought into the road transport sector, we pointed out that similar standards of protection could be achieved for drivers simply by tweaking the existing drivers' hours rules rather than overlaying them with an entirely new set of requirements, with incompatible time intervals being specified for when breaks were required. It is a nightmare to try to manage a driver who is subject on the one hand to EU drivers' hours rules and on the other hand to the mobility version of the working time directive. We have a computer program for it, and, by heck, you need one. It is a huge and unnecessary encumbrance that could be dealt with simply by tweaks to the drivers' hours rules. That is an example of the administrative changes that a Government outside the EU could make without compromising any of the road safety standards that we have lived with for many years.

Lord Aberdare: What I am hearing is that, in comparison with some of the existential threats to the sector that we have heard about, these are nice-to-haves rather than substantial benefits or enhancements of competitiveness. Would that be a fair statement?

Mr James Hookham: It would. I do not think the FTA or the RHA would die in a ditch over this. I would not want you to see it as in any way some kind of compensation for the kind of traumas we anticipate the road haulage sector going through. That is not a good bargain.

The Chairman: Can we move on to the type approval dimension?

Q43 **Lord German:** This question is probably for Mr Hawes rather than anyone else. The European Commission has proposed the transfer of UK-based EU type approvals to another EU authority. We understand that is a backstop. We do not know whether it is a backstop to a backstop, or a backstop to a permanent situation. In a no-deal Brexit, the Government would issue UK vehicle type approvals. Can you give me some indication of what the impact of these decisions is likely to be on the industry in the UK, and what the implications would be for the backstop and maybe no deal, which is the other part?

Mr Mike Hawes: It is an additional cost and burden. At the moment, vehicle parts as big as engines are type approved, which allows you to sell that part anywhere within the single market. Once you remove access to that for particular markets, as will happen in the UK, you require additional checks, regulation or whatever it is. Manufacturers with a concern about the validity of some existing type approvals, perhaps given by the VCA, have already sought to recertify using European-based type approvals. To be able to grant a type approval you have to be a member state. That is the fundamental reason.

A manufacturer may have achieved a type approval from the VCA. Europe has said it will cease to be valid in the future, but it can be transferred to a European type approval. Equally, if you have a European type approval, the UK Government have said that they will recognise that, certainly for the transition period. They have put in place a system of temporary type approval initially, which is probably as sensible as you could have in the interim period. All manufacturers have to notify the Department for Transport of the various models for which they will require a UK type approval to allow them to continue to sell them for up to two years.

What happens after the two years is still very uncertain. It is uncertain whether you will have to seek a full retest of the vehicle. There will be some element of test. The first stage is a paper exercise; the second stage will be the fuller test; and then people will begin to say that it is a significant additional burden, especially when the thing we want is continued regulatory alignment. The vehicles will remain the same and will meet the same standards and requirements.

Lord German: But they cannot be regulated.

Mr Mike Hawes: They will not be recognised.

Lord German: Yesterday, I was talking to a large manufacturer of motor vehicles in the UK who told me that there is now a logjam at type approval agencies around the European Union and in the UK because there is insufficient capacity to deal with these issues. Is that a result of the current Brexit problem, or is it simply that manufacturers are used to producing far more types of engines or vehicles and they are clogging up the system anyway?

Mr Mike Hawes: It is the conflation of a couple of issues. The test cycle that allows you to put the vehicle on the road changed for the first time in about 30 years. The industry was given 13 months to ensure that every single vehicle put on the road as a type went through the new test and was certified. Like any other businesses, testing facilities try to run at maximum capacity, at between 80% and 90%. There is not the capacity to shove the entire vehicle array across Europe through the type approval process within 13 months. That is why you have seen a very turbulent new car production market; there is shortage of supply because not all of them have approval.

On top of that, some companies are looking to retest at European level. That is additionality, but the main problem with capacity relates to the shift from the old test system called NEDC to a new one called WLTP. They are slightly different issues.

Lord German: The two-year temporary position has already been agreed, so, unusually, we have some certainty for a temporary period. Do you think that the financial impact on UK manufacturing industry will be sufficient to make future investment less?

Mr Mike Hawes: In the temporary period, it is just a paper exercise. It is a burden and something we would rather not do, but we will have to do it. Getting through the next two years will not be painless, but it is a question of trying to minimise the burden on the industry.

Of greater concern is the long term, when we do not know exactly what the test will be. We will have to type approve for the UK and we will have to type approve for the rest of Europe. At the moment, we just do it once. Even assuming that the regulations we are type approving to are identical, which we hope will be the case, we would still have to go through two tests. As it is, a manufacturer based in Europe, not necessarily here, has to design and engineer a vehicle for the UK with a steering wheel on the other side. That is an additional cost. If you have the additional burden of testing, which is not cheap, you are adding cost. If it is a small volume model, you will ask whether it is worth putting that car on to the market in the UK. If you say no, it could lead to a drop in consumer choice.

At the moment, the challenge is that we just do not know what the future testing requirements will be. Indeed, in the short period we are waiting to see what the statutory instrument will look like. It has not been laid before Parliament yet. We are five months away. It could create a short-term bottleneck when all the importers and manufacturers try to submit all their model types to DfT for approval in less than three months.

Q44 **Baroness Donaghy:** You have covered quite a bit of my question. The Government White Paper on future relationships said that their objective was common mutual recognition of vehicle type approvals. Are there any existing third-country arrangements that provide a precedent that we could possibly follow?

Mr Mike Hawes: None that are exact. You are right: we want mutual recognition. We do not want regulatory divergence because it leads to inefficiency. You could look at Switzerland, but that is exceptional because Switzerland does not have a car manufacturing sector, so it is a matter of allowing vehicles to come into Switzerland rather than going the other way. We need something that is bilateral, and that is a greater problem.

If you look at free trade agreements, both Canada under CETA and South Korea generally have chapters on respecting regulation. They have different regulatory frameworks from ours. There is a degree of recognition, but there is no model you can take off the shelf and say that this is how it will work in the future. We generally type approve to a European regulatory system. Whatever the nature of Brexit, we are likely to follow those rules, because Europe, and the US to some extent, are the major powerhouses of regulation. Ideally, we want global regulation and the UNECE provides that structure, but getting the entire automotive industry and member state countries to agree on global rules is a very long-winded and difficult process, and not one that has been hugely successful over the last 20 to 30 years.

Q45 **Lord Wigley:** Evidence from the Department for Transport tells us: "Environmental standards, such as emission of pollutants … are driven by the EU and the UK has played a key role in the advancement of new standards". That being so, and to some extent you have emphasised it, how important is the EU in shaping and setting vehicle standards? Given that we do not want regulatory divergence, as you put it, after Brexit, should UK policy be shadowing EU policy?

Mr Mike Hawes: To a certain extent, yes. The UNECE sets global regulations. Different markets implement them to a greater or lesser extent. The major regulatory powerhouses tend to be the EU, especially around the environment but also safety, and the US. They are very different models, with different fundamental approaches to technical regulations. The outcome is the same, but the processes they go through are very different. The EU is hugely influential globally. China's environmental rules are generally based on EU 6 rules.

One of the advantages we have had over the past 30 years or so, which you alluded to, is that the UK has been at the table when the rules were being set. We have been able to influence them and assure the nature of the UK automotive sector, which is different from just about any other member state because we have a long tail of small, high-performance and luxury manufacturers. You need to look after them as well. You also want to make sure that you are driving those ambitions, be they on safety or the environment.

One example of safety coming out of the European development of rules is pedestrian protection. Vehicles to be put on the European market have to be designed to try to minimise the impact on a pedestrian in the unlikely event, one hopes, that a pedestrian is struck. In America, they do not have that; either they do not have pedestrians or they have a very different approach. That is just one example. There are myriad examples where things are different. Generally, you want to minimise that variation. Europe, whether we like it or not, will continue to be, given the size of the market, a regulatory powerhouse.

The Chairman: That reminds me that I should have declared my interest as president of the Road Safety Foundation. If there are no further questions on standards, we will go on to a slightly rosier view of the future, we hope.

Q46 **Baroness Noakes:** I ask my question with some trepidation, given that you have been very forthright about the problems and issues that your respective industries face. My question is whether there will be opportunities for your respective industries in a post-Brexit world.

Mr Mike Hawes: I have done a few Select Committees and others on the subject of Europe. That question always comes up and there is generally a short answer: no. We would always look for future benefits to arise under any situation, and the industry will always try to adapt. It is hard to see anything happening in the short to medium term that would benefit the industry.

You can talk in the longer term about the substitutional effects on trade. Eighty per cent of what we produce goes abroad; over half of that goes to the rest of Europe. We already trade with America, China and others. We would like free and fair trade with all countries, but trade deals take a long time and, invariably, you get into issues of vested interests. Noises on the other side of the pond are not hugely encouraging. There is still a threat under Section 232 of tariffs being levied on European automotive manufacturers, which we would not like to see because we would rather have free and fair trade.

Baroness Noakes: Do the other witnesses see any opportunities post Brexit from a haulage perspective?

Mr Duncan Buchanan: There may be some in some sectors. Cabotage causes significant competition now. That may be an opportunity for some hauliers, but it will be relatively limited. Beyond that, there is little scope for serious changes. Most of the industry deals with domestic haulage. In international haulage, we are adding complexity and moving away from standardisation. As soon as you move away from standardised processes, you add a lot of friction. People underestimate the huge benefits that come from standard recognised processes, and that applies to the automotive sector and right across; it applies to food and everything else. Standardisation has significant productivity and competitive benefits for everyone. We will still need to follow a lot of rules because we will be dealing with international movements. I do not know whether Clive can see any benefits.

Mr Clive Mills: None at all. Everyone says, "When we do Brexit and we come out, what about turning to domestic freight?" We have quite a bit of domestic freight in this country. There is still a shortage of drivers, and there is obviously freight to be moved, but the problem is that everyone will try to go into the domestic sector. Price will then be driven by demand. There will be more trucks available, so the price will come down. We were talking about this earlier. Some companies are working on a profit of £50 per day per lorry. It is minimal. That is why I have never gone into that sector. It is not a lucrative market. I see no future benefits to me and members I have been speaking to. It is very bleak. I hate to say that, but people probably realise that.

Baroness Noakes: I think we have got the message.

Lord Liddle: Various things have been discussed about how new arrangements with the EU might relieve this very bleak picture. Do you have a position on either a temporary or permanent customs union, and how much would that help road haulage?

Mr James Hookham: When the Prime Minister announced in January 2017 the intention to leave the customs union and the single market, she also offered us, somehow, the continuation of frictionless trade. The customs union and the single market are merely a means to that end; it is non-frictionless trade that creates cost and makes operators uncompetitive, or indeed simply denies them the right to travel in the first place.

Our position has always been very open-minded as to how frictionless trade might be reinstated if it is not through the customs union and single market mechanisms. It is not entirely impossible that some new contrivance might not be worked out in a free trade negotiation with the EU. We certainly have some ideas and views to inform our negotiating position on that. There are certain outcomes we would like to maintain. You have heard about the non-outcomes that we are very upset about; we would certainly not want quota-restricted transport or anything like that. We are not so concerned about the means of achieving frictionless trade; we are after a frictionless order, and we are very open to how that might be delivered.

Lord Liddle: We are supposedly getting the withdrawal agreement quite soon, but it seems likely to me and most commentators that it will deal with withdrawal issues, and it might be aspirational rather than detailed in what it says about the future. Presumably, if we are in a position where all is still to be worked out in the transition period, you will be relieved that you have the transition, but it will not help you much if there is another cliff edge. Is that right?

Mr Duncan Buchanan: I completely agree. The most fundamental point is knowing what we have to do next and having the time to prepare for whatever that next is. James is right: whatever construct you as politicians make, we will work with it. We will try our best to make it work as efficiently as possible, and we will work very hard at it. We deal with multiple regulations and circumstances in road haulage as it is, and we will deal with whatever comes our way. We are not out to prevent Brexit. We are not out to stay in the customs union or the single market, or to suggest any particular solution. What we need is a working environment where we know what we have to do.

Mr Clive Mills: To give you an idea of the problems we face, if we do a job to Switzerland, which, for argument's sake is outside the EU, or to any country, we have to get either a carnet or a T-form, which is quite involved. I raised a question about that at a meeting not so long ago. One of our customers might go down to Barcelona and do an event down there and then carry on to Cannes, taking two lorries and sending one back. They will no longer be able to do that, because of how the carnet and T-form work.

As regards the carnet and T-form, there is nothing in place at the moment to deal with the amount that we will have to do. The figure being thrown around—if I am right, Duncan—is that at the moment one of our members deals with about 17,000 to 20,000 movements a day on non-EU T-forms and carnets. When he told us the amount that figure would rise to, we could not believe the figures. We are not talking thousands; we are talking millions. There is no system in place at the moment that could deal with that. We said, "Hold on, how can you get to millions?" If you go on Amazon and buy a pen that comes in from Europe, that is a consignment; it needs paperwork, just for that one pen. You want the paperwork, because you have to prove the duty on that pen, which somebody is paying the tax for. It is all about money again, and that is from customs.

At the moment, the system that we use is based in Salford, and it is electronic. Am I right, gentlemen? I am checking with my colleagues because they know more. We were told that the system could not cope with that amount of volume, and that it only just about copes with the volume we have at the moment. On a week-to-week basis, it normally crashes twice, which causes a delay of between four and six hours, because they have to reboot it and we have to start again. The other problem is that you need the officers to enforce that paperwork, which is for goods coming in and exiting.

A few years ago in Dover, we had the Customs House; they have now turned half of it into driver facilities, because they have got rid of the customs officers. How long does it take to train a customs officer? It is four years on average, from start to finish, to get it right. Then you talk to the guys who issue the carnets and the T-forms, and you ask them how long it takes to train somebody to issue those documents. It takes three to four years. We have 100 days.

The Chairman: That probably answers my question, which was whether the lack of preparation you referred to at the beginning was on the permit question or at the customs. I assumed that it was largely at the customs and port operators, but clearly it is in the permit system itself, before you even get to the port. Thank you very much for giving us an insight into that.

Unless there is anything you feel you have not covered, and that you want to register, we will draw to a close.

Mr James Hookham: May I pick up a really important point that Lord Robathan made earlier? Here we are presiding over the possible demise not just of the road haulage industry but the car industry. Of course, it is in no one's economic interests that that happens. Very similar discussions and thought processes are now under way on the continent, and most certainly in the Republic of Ireland. My experience is that their realisation just of what a hard border would mean, never mind a no-deal Brexit, is six to nine months behind the curve of understanding and comprehension in the UK. We have been much quicker, inevitably, to accept that the country is leaving the European Union, and to come to terms with what that means, whereas in my experience our equivalent counterpart organisations have assumed that it is an aberration, and that it will be cancelled and will not happen. They have not properly started the process of thinking it through.

There are two issues. One is that as the process continues there will be similar realisations and dawnings as to what is at stake, which will change the nature of the debate. However, there are politicians in continental Europe and in the Republic of Ireland who are as obsessed and precious about the European project as there are British politicians obsessed about leaving it. I shall not repeat the expletive used to characterise business by one British politician, but there is a similar sentiment that all this economic self-interest is somehow secondary to the delivery and preservation of a particular political project. That has sidestepped Ministers to a certain extent, because they expected the realisation of possible economic loss to occur far more quickly, and to bring the European Union to the table to avoid these scenarios much more quickly than has hitherto been the case. I hope it is happening in the background, out of our sight, but that kind of realisation has not really dawned on the continent to the extent that it is influencing the negotiations yet. The project is everything.

Lord Robathan: Could you just remind me, because I am sure that the FTA knows, what proportion of lorry traffic between the UK and the EU is actually EU based?

Mr James Hookham: That is a very good example. According to official figures, it is 80%.

Lord Robathan: That is what I thought.

The Chairman: On that note about precious politicians, I think we had better leave it. Thank you very much for your input. If there is anything you feel has not been covered, and which you think is important, please contact the secretariat and write in. Thank you for your evidence, both written and oral, from the hauliers' and manufacturers' side. It is very helpful indeed.

Mr Clive Mills: May I thank you? It is a privilege for me to be here; 18 years ago I would never have thought I would be sitting before you people. I am honoured and humbled.

The Chairman: So are we. Thank you.