HOUSE OF COMMONS

Business, Energy and Industrial Strategy Committee

Oral evidence: Leaving the EU: Implications for UK Business, HC 384

Tuesday 27 November 2018

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Watch the meeting

Members present: Rachel Reeves (Chair); Drew Hendry; Stephen Kerr; Mr Ian Liddell-Grainger; Sir Patrick McLoughlin; Albert Owen; Mark Pawsey; Antoinette Sandbach; Anna Turley.

Questions 64 - 143

Witnesses

I: Dan Mobley, Corporate Relations Director, Diageo; Ian Rayson, Director of Corporate Communications, Nestlé UK; and Ian Wright, Chief Executive, Food and Drink Federation.

Examination of witnesses

Witnesses: Dan Mobley, Ian Rayson and Ian Wright.

Chair: Thank you very much, Ian Wright, Dan Mobley and Ian Rayson, for coming back to give evidence today. It is about a year since we last saw you, when we took evidence on what you wanted from a Brexit deal. Now we have the Prime Minister's withdrawal agreement and political declaration, we are keen to hear back from the industries that gave evidence to us before: food and drink, pharmaceuticals, aerospace and automotive. This is the first of four sessions that we are going to be holding over the next week or so. We appreciate your time this morning and are looking forward to hearing your evidence. We will start off with you, Ian Liddell-Grainger. You look so keen.

Q64 **Mr Liddell-Grainger:** Ian, last year when you came before us, we talked about Brexit and you said some of the main issues would be the labour, the supply chain and the tariffs. You gave us a watch list. Where have you got to within discussions with Government and how do you feel they are going?

Ian Wright: If we look at the things we mentioned then, we talked about the particular importance of the island of Ireland. What we have on offer and what we have widely agreed is that any solution will both have to include the backstop and will have to ensure continued frictionless trade on the island of Ireland, particularly because of the preponderance of agri-food. We are reasonably satisfied with the progress made there. We are reasonably satisfied with the intent of the Prime Minister's agreement in terms of regulation, although it is still a bit of a mess in terms of where the regulatory authorities will sit. I am not sure I quite understand what is meant by deep regulatory co-operation, which seems to me to be different from a number of the other wordings we have heard: equivalence, mirroring and all of that stuff.

We have made some progress on regulation. We have certainly made good progress on remaining, for all practical purposes, in the customs union, which we very much welcome although I should say at least a small number of our members are very bothered by that, because it particularly relates to some agricultural products. Cane sugar would be one where they are very much banjaxed by remaining in the customs union.

Where we are not at all happy with progress is on access to labour and free movement. I was lucky enough to be invited to the Prime Minister's thing last night. It was interesting that the moment of highest tension was when that issue was raised. It is clear that the Government believe this agreement prefigures the idea that it ends the free movement of labour and that that is a good thing. We do not think that. We think that is a bad thing. We need access to all the workers we can get, and European workers in particular.

Q65 **Mr Liddell-Grainger:** I think that is going to be addressed slightly further on in the questioning. It is a great thought to go on.

Dan, last December, you were talking about your suppliers and their ability to get the workforce they needed, which is following on from Ian's point. Following on from Ian, are you still concerned about the freedom of movement and where we are with this?

Dan Mobley: I am concerned for suppliers and downstream for the hospitality industry more generally. That is not a new problem. The hospitality industry collectively, including tourism, hoteliers, bars, restaurants, et cetera, are still saying that they are short of 40,000 to 60,000 workers today, and this is before Brexit has happened. Assuming freedom of movement ends and we end up with a tightening of supply of labour, that could exacerbate that problem. There is still a concern there.

Q66 **Mark Pawsey:** I wonder if I might ask about what has happened over the last two and a half years. This is specifically for Dan and Ian. When businesses bring forward investment, there are lots of press releases and we hear about it. When businesses put an investment decision on hold or they defer a decision, there are rarely those press releases. Can I ask you, as Diageo and Nestlé, whether, over the last two and a half years, there have been investment decisions that your businesses have made that have been put on hold?

Dan Mobley: No, we have not suspended any investment decisions. In fact, over the last 12 months we have announced a significant new investment in the UK. We are going to put £150 million into Scotland.

Q67 **Mark Pawsey:** The uncertainty that we have gone through over the last few years has made no difference to Diageo?

Dan Mobley: I would not say it has made no difference. We have had to weigh investment decisions very carefully but we have not deferred or put on hold any investment decisions directly as a result of Brexit.

Q68 **Mark Pawsey:** Ian, may I ask you the same about Nestlé?

Ian Rayson: It is similar. We had, as Nestlé, gone through a huge investment in UK manufacturing over the last five to 10 years. We have not faced any big investment decisions in the period you say. We are continuing to invest in an ongoing way. Regarding the level of uncertainty, we do welcome the withdrawal agreement and we are beginning to see a way forward. That does help. Uncertainty undoubtedly does influence investment decisions, so that is very welcome. From our point of view, the investment in the UK, both now and in the future, is always in the end dependent on UK productivity and the UK skills base. Our UK factories have to be competitive with Nestlé factories elsewhere in Europe or elsewhere. That is always the key. The work on industrial strategy and productivity, which we have supported and Governments of all political parties have been driving, is very important for the future of investment.

Q69 **Mark Pawsey:** To be clear, there are not any decisions for investment that might have come the UK's way that have not been deferred as a consequence of the uncertainty over the past couple of years.

Ian Rayson: Nothing of any great substance.

Q70 **Mark Pawsey:** That is very positive and very encouraging. We know we have an outline of where we are going. We have the meaningful vote in a couple of weeks' time. We are not sure what might happen. There remains the possibility we could crash out with no deal. I know there are some reports that some food and drink manufacturers have been starting to stockpile in anticipation of things perhaps going badly. Is either of your businesses doing that?

Dan Mobley: We are not at this stage having to stockpile. We have been very clear on record that no deal is the one outcome that we want to avoid as Diageo. We can talk about the withdrawal agreement, which we are broadly supportive of precisely because it avoids no deal. As we get closer to March, if it looks likely we are going to face a chaotic Brexit, that will pose some challenges for us and we will need to work through in detail, market by market, whether we need to increase shipments ahead of that moment. There will not be a material cost to us. It will just be a logistics and planning exercise, but it is critical for us to make sure of continuity of supply.

Q71 **Mark Pawsey:** Have you done any planning so far?

Dan Mobley: We have done extensive planning over the last 12 months, just to work out precisely where we can—there is a lot of uncertainty over what no deal would mean. Technical questions—such as, ahead of the 29 March deadline, if we are shipping product to a country like Korea, does it actually have to have docked in Korea for us to benefit from the EU FTA, or, if it is on the ship, is that good enough—are questions we have had to work through legally to understand, to allow us to plan the logistics ahead of the possibility of a no-deal Brexit.

Q72 **Mark Pawsey:** At this stage they are purely plans that are in place, and you have taken no action to prepare for no deal.

Dan Mobley: We have put in place planning so we would be able to manage no deal without any disruption to customers.

Q73 **Mark Pawsey:** With regard to Nestlé, are you starting to increase stock levels of materials in any way?

Ian Rayson: We are and have been for some time.

Q74 **Mark Pawsey:** When did that process start?

Ian Rayson: We were always planning against a worst-case scenario outcome, because there were so any possibly scenarios that you need to have a baseline. We were always looking at that scenario, which is essentially going on to WTO terms or whatever. The no deal brings in the additional complication that it is a cliff edge as well. We have accelerated that element of the work in the last, I would say, four to five months. We have been in discussions and collaboration with Defra and others, sharing our information. We have been stock-building to an extent on products that we need to import into the UK.

Q75 **Mark Pawsey:** Could you give us an idea of what those products have been?

Ian Rayson: What we could do, if it is helpful—we have shared it with Defra and would not necessarily want to put the whole thing in the public domain—is give you the list of these products, if that is a helpful thing to do.

Chair: That would be helpful, thank you.

Ian Rayson: Essentially we are stock-building some products that we import into the UK, and we are stock-building in some other European markets products that we would export from the UK to there. We are stock-building at both ends but this is only for periods of weeks.

Q76 **Mark Pawsey:** I was going to come on to that. Could you give us an indication of the percentage of extra stock that you are holding? Are you holding double the stock level?

Ian Rayson: No.

Q77 **Mark Pawsey:** Is it 50% additional stock? I am trying to get an understanding of the degree of this additional stock-holding.

Ian Rayson: I completely understand. There are limits to how much stock you can build for lots of different reasons when you get into the complexities of it. We have efficient factories that do not have huge amounts of extra capacity. You would not want that. You are not suddenly able to stock-build in vast quantities. Warehousing is another issue. Certain ingredients have a fairly limited shelf life. There are some limitations from that point of view.

We can do some stock-building. The conclusion we drew very early on, which is fairly common across the industry and is what we have been sharing with Government, is that you can prepare almost in crisis management terms for a no-deal exit and you can do certain things around that, but you cannot mitigate the risks of a no-deal Brexit. The consequences of it would be very severe and should be avoided. That is the honest truth.

Q78 **Mark Pawsey:** I have a particular interest in packaging. Ian, perhaps you might let me know this. Packaging is a product that does not have a limited shelf life. Are there any concerns about the ongoing availability of packaging materials from the EU? Are there any challenges in getting hold of those? What does industry do post packaging, getting that back into the EU after the product has been consumed here? Are there any challenges on packaging?

Ian Wright: There are some serious challenges, particularly in relation to cardboard and paper-based packaging. If I remember my figures correctly, 600,000 tonnes of that is used every year, 90% of it imported and 80% of it imported from the EU. Any blockage in the supply chain as a consequence of a no-deal Brexit would be pretty calamitous, because you only hold typically, in the whole of the industry, somewhere between eight and 10 weeks of stock. That is refreshed on a regular basis. That would be a fairly major problem if there was a supply chain issue.

What we have seen in the last few months—in fact I was talking to the chief executive of the Packaging Federation about this yesterday—is prices rising, because there is some scarcity and people are forward-buying. You were talking about stockpiling there. One element of preparation, rather than stockpiling, is forward-buying. You buy the space, you buy the packaging and you buy the ingredients, but they remain where they would have been. No other commercial entity gets access to that. That is going to be a problem across all of the supply chain with packaging, ingredient supply and actually with warehousing. Just because all the warehousing is full—allegedly full—does not mean there is something in it; it just means that somebody has booked it. The same is true of packaging.

Q79 **Mark Pawsey:** Let us say we have no deal and there are challenges in getting materials across, would that represent an opportunity to UK manufacturers to seize perhaps a larger share of the market?

Ian Wright: Theoretically, but the problem would be to access the opportunity quickly enough. You would have a long period of disruption because people would have to tool up, unless they already have a factory that produces this. The fact that 90% or 80% of the product comes from the EU, and another 10% mostly I think from Latin America, would imply that either we have not been able to do it here at cost, which is a possibility and would give an opportunity, or we simply do not have the capacity in the market.

Q80 **Chair:** Following up on a couple of issues there, both Dan Mobley and Ian Rayson, you said that you have not so far had to make any changes about investment decisions. When you gave evidence to us previously, Dan, you said that in terms of some of these additional costs, for example, at the border in the Northern Ireland, you could absorb them but it would be harder for your suppliers. I wonder whether you see your suppliers do anything differently. Obviously both of you are part of a large supply chain. You may not have made investment decisions over the last couple of years. Have you seen any changes in your suppliers at all?

Dan Mobley: There is nothing visible at this stage in the supply chain. It is important to note that Diageo is quite atypical in terms of its supply chains, compared to other large multinationals, because most of what we produce in the UK has very short, very localised supply chains. If you look at the bulk of our manufacturing, it is scotch whisky, gin and vodka. You are generally using agriculture inputs, mainly sourced in the UK, if not exclusively. It is yeast; it is water. That all has to be local. There may be small amounts of packaging that we would import but that is a very small proportion of the finished product. Given that structure, we do not face many of the challenges other big companies do in terms of supply chain disruption from leaving the single market.

As I say, our primary concern through this process is around labour supply and the supply chain in hospitality, which we have touched on already. It is less around investment decisions within the supply chain. For Diageo's investment decision, the only big one we have had to take in this recent period has been tourism-related. We see a huge opportunity to encourage inbound tourism into Scotland around whisky. We have put a very large investment in Edinburgh to create a Johnnie Walker centre and link up our distilleries. That is not something we see predominantly jeopardised by or having any new problems arising out of Brexit.

Q81 **Chair:** For you, Ian Rayson, and your supply chain, has it been affected by the uncertainty over the last couple of years at all?

Ian Rayson: We have a much broader supply chain than Dan is talking about. Many of them are very big, well established suppliers, and we are not seeing anything there. We are certainly not sighted on individual investment decisions but, as you look across the industry—and we work with milk farmers and people who are effectively small businesses or sole traders—there it has been evident for a while that, for small organisations, it is more difficult to plan for Brexit. They operate a much more short-term financial position. They are much more at risk from no deal.

Q82 **Chair:** On this issue about the storage space and the warehousing if you needed to stockpile, Ian Wright, you said there that the warehouses might not have anything in them but they have been booked. Is there enough storage available? Ian, you are shaking your head.

Ian Wright: No. There are effectively three types: frozen, chilled and ambient. Frozen and chilled are, for all practical purposes, booked out at the moment, and there is some ambient available but it is in the wrong part of the country. It is not where you need it on your particular supply journey. What we do not know is whether there is actual product in those places. We certainly do not know, going forward, if people have booked in order to be careful or whether they genuinely are gearing up production to put product in there. It is quite a difficult issue.

Obviously there will be places where there is some frozen capacity, some ambient capacity and some chilled capacity. There are some very innovative providers who are doing a sort of Airbnb of warehousing. If you have a bit of space, they will sell it for you. That is a very interesting model, but for long-term planning for big or medium-sized businesses, it will not work.

Q83 **Chair:** Is the cost going up of the warehousing space?

Ian Wright: Absolutely.

Q84 **Chair:** Where does that cost end up? Does it get passed on to the consumers? Does it get absorbed by the businesses?

Ian Wright: That is the major question about food supply. This is going to sound like a whinge, but we are in a low-margin business. Often members of mine operate on low single-digit margins and there is nowhere to go. If costs go up, you either have to absorb them or you have to pass them on in price increases. We are in a low-price food economy. That is something that the Government want. That is something that the supermarkets want; the extraordinary level of competition in our supermarkets, which I talked about last time I was here, is still rampant and shows no signs of abating. Supermarkets are more concerned about new entrants than they are about putting prices up. Also, the consumer and shopper love low prices, and we all love them ourselves.

Q85 **Chair:** What is happening to the additional costs?

Ian Wright: They are going into people's margin and they are making less money.

Q86 **Sir Patrick McLoughlin:** Is this something new about the warehouse storage and freeze storage you have talked about? Three years ago, would we have still had full capacity use of our storage, or is this something that has developed over the last 18 months as a result of Brexit?

Ian Wright: My impression is that it is partly a hedge, so it is preparation. Stockpiling is only one subset of good preparation and good contingency planning. The amount of warehousing space in total has not grown very much in the last few years, because that is part of the whole cost constraint, managing your working capital point. When you get to moments of tight supply of the warehousing space, there is not any, and no one is building any new warehousing space at great scale.

There was—I think this is right—an expansion of the total market up until about 2008. A lot of the sheds that you saw built around the country were in fact warehouses, but of course a lot of that stopped on the back of the crash. Famously, one of the banks was particularly attached to funding big sheds, many of which were warehouses. That stopped. There has not been a big expansion since.

Q87 **Sir Patrick McLoughlin:** The truth is that you do not want to build for spare capacity.

Ian Wright: No, of course you do not.

Q88 **Sir Patrick McLoughlin:** What about Nestlé and Diageo, as far as your own storage is concerned?

Dan Mobley: This is not a significant problem for us within the EU. You have to remember, again, we are slightly atypical. We are not a fast-moving consumer good and we are not a perishable good. People do not buy a large number of bottles of spirits and it is slow-moving consumer goods. We are also fortunate in that almost everything we manufacture in the UK is shipped out of Grangemouth in Scotland; it is not going through Dover. In a no-deal chaotic scenario, we do not know the level of disruption in the ports but our stuff, even if it is delayed, will not go off and will ultimately, we suspect, end up on shelves. We do not face any new tariffs for any shipments into the EU either.

Where we face a particular problem, which is a real source of uncertainty that is not yet resolved even if the withdrawal agreement is passed, is shipments to third-party countries covered by the EU's free trade agreements. We do not know yet, even if the withdrawal agreement is passed, whether those free trade agreements will continue to apply to goods shipped from the UK to countries like Korea, Colombia, Mexico, et cetera. We will have to take a decision, as we near the point of Brexit, as to whether to move a greater quantity of goods than we normally would do to some of these countries if we if we believe they are not either politically or legally going to apply the FTAs to the UK once we move into the transition period, if we move into the transition period.

Q89 **Antoinette Sandbach:** In part, Dan, you have answered one of my questions, which is what your assessment is of the withdrawal agreement and whether or not it provides you with some of the certainty during the transition period. Clearly a rolling over of the FTAs that the UK currently has via its EU membership is a concern for you. Is it the same for Nestlé and the other Food and Drink Federation members?

Ian Rayson: Yes, it is similar. When I was here a year ago, we were talking about a very similar picture. The withdrawal agreement does in fact address most of the main concerns that we had for a period, so the withdrawal agreement is certainly very welcome to that extent. It gives clarity and a bit more certainty on a journey. It is still less clear what the end point of that journey is. That is the difference.

Ian Wright: Specifically on the trade deals, that is a big concern for our members. When we talk to Government, they tell us we are very close to the moment when it will be confirmed that many of those deals have been rolled over, in effect. That would be very welcome news.

On the withdrawal agreement, it is a very helpful step forward. The bit that concerns our members is about what it is a transition to. That is the real $64,000 question: what is the transition and what does it look like?

Could I say one thing I should have said to you, sir? As well as not knowing what is in it, we also do not know who has booked a lot of the warehousing space. There has been some gossip—I cannot stand this up but it has been in print—that quite a lot of this has been booked by Amazon for its entry into the food market at some point in the next few months. Every retailer is inevitably terrified of that prospect and will talk it up. I do not know the answer to that, but it might be a useful question to put to Amazon and Mr Gurr, although he will not tell you. He is not one of my members so I feel entirely at ease.

Q90 **Antoinette Sandbach:** If I have understood your evidence rightly, what you are saying is you are happy with the withdrawal agreement because it allows you to transition, but you do not know what you are transitioning to.

Dan Mobley: It is a little stronger than that for us in Diageo. We came out quite supportive of the withdrawal agreement, having ploughed through the 585 pages of fairly dense legal text with a trade lawyer. When I came before this Committee a year ago and I outlined the major concerns we had, first is the no-deal chaos. If this is passed, it does defer the moment of a no-deal Brexit for at least the period of transition and it sets a direction of travel that we would welcome.

We called for frictionless trade. At least through the interim period, the withdrawal agreement provides us with a degree of frictionless trade and resolves the question on the border between Northern Ireland and the Republic, which we talked about at length a year ago.

Critically, it provides clarity for our workforce who are British nationals on the continent or continental Europeans in the UK. Again, if we do not have a deal, we are concerned for them. We are not a huge employer compared to some but we have 300 people on both sides of the Channel impacted by that, and they have been living with a huge degree of uncertainty. They continue to live with that uncertainty.

For those reasons, we welcome the withdrawal agreement. We would really love to see it be passed by the House and agreed by the European Parliament, but we do have this one concern that goes beyond the withdrawal agreement, which is this issue I mentioned of the FTAs. There is very positive language from the European Commission, with a declaration that third countries should treat the UK as if it were a member through the period of transition but that is not legally binding requirement. Where we talked to those countries and their Governments, many are favourably disposed to doing that. Some face administrative hurdles to doing that. In Colombia, it will take around two years to pass the legislation required to re-enact the trade agreement with the UK, even though they want to do it. We are not hearing yet whether the Koreans are minded to do so, and that is a big export market for us. That is the one issue that for us is very significant, which would not be resolved even if the withdrawal agreement is passed.

Q91 **Antoinette Sandbach:** In terms of the fact that the withdrawal agreement highlights there is a continuation of general principles and requirements of EU law on food safety, such as food hygiene and quick frozen food stuffs, does this provide your members, Mr Wright, with the clarity that they need?

Ian Wright: The intent is there but one of the problems, as you will know, I am sure, with regulatory matters is that they are incredibly complex. Any room for doubt or any ambiguity is unwelcome. Our concern is more with what the regulatory framework will be going forward. We understand the principles. A common rule book was talked about at the time of Chequers. The rule book seems to have been put away now, and we are now using another set of words. That is what I said at the start: we would really like specificity, and we would also like to know, when we get to that, whether we are going to have one set of regulations for the whole of the United Kingdom. Will there be separate regulatory arrangements for the devolved administrations? What will be the position in Ireland? A frictionless border and what is effectively a single economic zone implies a single regulatory space. That might be a different regulatory space from the one in the rest of Great Britain. I am not saying that those are insuperable obstacles, but the quicker we get to some level of clarity, the better. We are only 21 months away when we leave, theoretically, from the new arrangements coming in; that is quite a short time to do all sorts of stuff on labelling and regulatory arrangements.

Q92 **Antoinette Sandbach:** How do you see it, Mr Rayson?

Ian Rayson: As I said, we are very supportive of the withdrawal agreement. The intent and the aspiration of the political declaration is very positive. We would absolutely want to acknowledge that, but, as Ian has said, there is an awful lot of complexity and negotiation to get from where we are to that aspiration. It is in there that we would counsel a cautionary note.

Q93 **Antoinette Sandbach:** Given that cautionary note, it is quite clear that the final version of the withdrawal agreement limits an extension of the transition period to one or two years in the absence of a trade agreement. Does that cause you concern?

Ian Wright: Yes. Previous experience would suggest that the ability to negotiate a very complex deal is unlikely—well, it certainly will not be done until the very last moment, which is what we are living through at the moment. In terms of the political declaration, as I think the *Daily Mirror* said yesterday, "Now for the difficult bit". It really is difficult. I do not envy anybody who has to negotiate that, because as well as the fact we have done the withdrawal agreement and that has taken us two and a half years, what we have seen in the last 48 hours is the President of France basically telling us he has us *sous un baril*. Sorry, that is very bad French. They are all going to pitch in now, are they not? We would. If we were negotiating a deal, we would all be in there trying to get our bit of the pie. That is really quite a difficult situation for us. I absolutely agree with what has been said: the political declaration is aspirationally excellent but it is really a list of new year's resolutions. We do not know whether they will still be there come the end of January. If you have got the President of France and the Prime Minister of Spain and no doubt Mr Orbán in Hungary throwing all sorts of things in that they want out of it, we do not know that what we see now, which is excellent, will remain in any form of tact.

Q94 **Antoinette Sandbach:** If there was an EEA, EFTA-style agreement as a result of the political declaration, would that give your members certainty, bearing in mind it removes fisheries and agriculture?

Ian Wright: That is a hypothetical proposition, is it not? Do you mean Norway for now or Norway forever?

Antoinette Sandbach: I mean Norway-plus.

Ian Wright: That is a formulation I have not heard before. This is the position. We like what we have now. No deal is infinitely worse than anything we could imagine. Therefore, the deal on the table is better than no deal infinitely but it is as not as good as the status quo.

Q95 **Chair:** Would Dan Mobley and Ian Rayson agree with the way Ian Wright is putting that?

Dan Mobley: Our company was very clear. In the referendum, we came out in favour of remaining. We had a referendum. We respect the result of that referendum. We think the withdrawal agreement satisfies the major concerns we have, apart from the one I have mentioned.

There is one point that has not been talked about too much, which is around both the transition and the customs territory. We called for a longer period of transition. We are pleased to see within the withdrawal agreement a facility that would allow that. It is interesting that when you talk about the negotiations to come, the UK, if it remains in that customs territory for longer than expected, will not be paying into the European Union budget. From all the conversations we have had in Brussels and elsewhere, that is not a very attractive prospect for the rest of the members of the European Union, so there will be a desire on the other side to limit transition and come to a deal.

Specifically on other variants of Brexit, if they meet the concerns we have, which is certainty for our people, frictionless trade, resolving the Northern Ireland border and allowing us to benefit from free trade agreements and with third parties, then we would support that.

Q96 **Antoinette Sandbach:** Diageo, do you think that the withdrawal agreement gives you certainty on labelling, for example, for spirits?

Dan Mobley: It does. There is a very live debate and there was a year ago in the European Union around labelling for the EU. That continues. Many of the aspects of it are devolved. Some for alcohol are centralised.

There is now a live debate that has just been opened up within the UK that is actually a much bigger concern for me, which is the Scottish Government potentially proposing to adapt their own labelling regime, separate from the rest of the UK. That would obviously be extremely unwelcome for us and, to our mind, does not make any sense. We hope we do not go down that route.

Q97 **Albert Owen:** Mr Wright, you have mentioned a couple of times Northern Ireland and the backstop. Before I come to both companies that operate north and south of the border, can I ask you for your analysis of whether you think it will give greater certainty to your members who are trading between north and south Ireland and, importantly, Ireland and the United Kingdom as well?

Ian Wright: I should explain that we have members who do that but we have a sister organisation called the Northern Ireland Food and Drink Association, which is extremely representative of both small and large players. They have welcomed the backstop and, it is fair to say, they have welcomed Mrs May's deal and have ridden in behind it like all the other business organisations in Northern Ireland. That is significant in the answer to your question. They believe the backstop does provide them with the certainty they need. They are concerned, as we have all said, about what happens post the transition but it is infinitely better than the uncertainty that they were otherwise facing.

Q98 **Albert Owen:** You said about the single entity before, being Ireland, and that could cause problems trading outside that single entity.

Ian Wright: No, I think what I was saying was it is a single economic space, effectively. It will be anyway because the border cannot be policed in any rational way. That is part of the slightly surreal nature of the conversation. There are 400 roads that go across the border. You are never going to be able police them all effectively. The regulatory thing does need to be cleared up for the long term. That is what I was trying to explain.

Q99 **Albert Owen:** To both of you, as companies that trade, does this provide greater certainty for you?

Dan Mobley: For Diageo, yes. It is, again, a big reason why we welcomed the withdrawal agreement. I mentioned to the Committee last time that we have about 18,000 truck movements going across that border every year. Any delay to that would impose some costs on us and significant costs on suppliers. As Ian said, it is hard to see how regulatory checks at the border would function with such a porous border anyway. We welcome the withdrawal agreement. It gives us the certainty we need around our operations across the island of Ireland.

Ian Rayson: It is a slightly different picture for us, as I explained last time. We are Nestlé UK and Ireland. We operate across that as one single market, as Ian was alluding to, as many other companies do. Unlike Diageo, the actual Northern Irish border is a concern for the industry; it is not a direct issue for us. We do not transport goods across that border very much, but everything that we send to Ireland, if it is manufactured in the UK or imported from other markets, it all comes through the UK and then across to Ireland. That model of frictionless trade and harmonisation is the fundamental business model for lots of us. The withdrawal agreement does give us that.

Q100 **Albert Owen:** At the moment it is just words. What would constitute extra friction? What would extra friction mean in practical terms?

Ian Rayson: The withdrawal agreement satisfies that because it makes clear that that is not going to happen. Is there a longer-term concern about what might happen? Potentially, because it is a little bit unclear post transition. There are some scenarios but, for now, the withdrawal agreement satisfies the concerns.

Q101 **Albert Owen:** For the three of you, do you see specific problems at ports in particular? We talked about warehouses and stockpiling. Is there going to be an issue at ports? I wanted to go back, Mr Wright; I should have come in. When you said the warehouses were in the wrong place, what did you mean by that? Did you mean geographically or not close to the railroad and infrastructure?

Ian Wright: Yes, I meant the latter. I was not implying anything about any particular place that a warehouse might be but the supply chains are geographical as much as they are conceptual. If you are coming in through Dover, you will have particular routes that you take through different motorway boxes. That is why Rugby and that intersection around there is such an enormous growth area.

Chair: Some members would argue it is the centre of the universe.

Ian Wright: As an east midlander myself, I would say it is about 30 miles the wrong way west.

Chair: We can continue that outside.

Q102 **Albert Owen:** Can I go to seaports, which are not in the midlands?

Ian Wright: The point is the costs are all built in. You know that your lorry is going to go this way, whichever way, and that cost is absolutely in the equation for the pricing of the product, as is the price of the warehousing. As I keep saying, there is nowhere to go if you have to change it. That is one of the problems, if we do get on to it and if you want to talk about it, of the no-deal Brexit. You can find alternative routes but the problem is how you manage to price that.

Q103 **Albert Owen:** With the current agreement and the future economic partnership, do you see additional costs for your members at ports?

Ian Wright: If there is any element of friction that takes longer to get through, that will add cost, because it adds cost to the time. It makes just-in-time more difficult, particularly with fresh food. It obviously adds to the cost of the lorry drivers' time, and there will be paperwork, inevitably, which has administrative cost. These may not be massive burdens but they will be extra cost at a time when trying to keep costs down is crucial to retaining your price competiveness.

Ian Rayson: That would be an example of where the political declaration has all the right intent but there is understandably very qualified language in the way it is written. It does not use the phrase "frictionless borders".

Q104 **Albert Owen:** Am I reading you right, in your responses this morning, that you are seeing certainty for the short period but then greater uncertainty? How does that impact on your three, five and seven-year plans?

Ian Rayson: It will certainly still impact on the longer term. The medium to longer term is still uncertain but it is heading in the right direction. We are trying to qualify welcoming the direction and the aspiration, with everyone working towards that, but just being cautious that we do not get ahead of ourselves and recognising that within that there is an awful lot to be done.

Dan Mobley: I flip it round the other way. The uncertainty for us is more in the short term around no deal. There are a number of questions around planning. Most of our planning is in terms of just trying to understand what would happen in a no-deal scenario and then making sure we are prepared for that.

When it comes to ports, as I have said, we are privileged in that we are shipping almost everything through Scotland. We are not doing roll-on, roll-off 30-second style logistics through Dover. Nevertheless, if there are new customs procedures that we have to apply up there and if we have some delays to shipments, there will be marginal costs but it will be limited and it will be manageable.

The question is how long that goes on for. We do not know. In terms of the questions around the uncertainty of whether the free trade agreements are applicable, we do not know. Those are the things that we would love clarity on. Many of the other issues are obviously settled through the withdrawal agreement but, again, we do not know if that will pass.

Q105 **Albert Owen:** I have a final question to you all. What is your view on potential technologies to avoid hard borders?

Ian Wright: I said last time that when politicians tell you there will be technological solution to that, they almost certainly do not know what they are talking about. It is beyond their ken. Sorry to be rude to you all.

Albert Owen: You are not being rude. You are being very helpful.

Sir Patrick McLoughlin: You are being rude but you might be right.

Albert Owen: Some of us actually agree with you.

Dan Mobley: There could be an opportunity to modernise some of the processes and procedures around customs. We see in other parts of the world that countries are looking at that. I wrote to the Committee last time around the US-Canada border. It is still a border and it still has infrastructure, but there is sensible use of technology in terms of trusted trader schemes away from the border, camera and number plate scanning. There are things you can do to reduce cost and frictions if the investment is put in. That will not obviate the need for a border if the withdrawal agreement does not pass.

Ian Rayson: It is a similar picture. Nestlé has experience of this around the world. There is much you can do with technology, but we are not aware of technologies that could magically solve the problem. You can do more but it is not there yet.

Q106 **Albert Owen:** The difficulty, when I talk to port operators, is about, if there are going to be any technologies, who is going to pay for it. That has not been resolved yet. Is it Government, local authorities, local port authorities or the users? Do you have a view on that?

Dan Mobley: We do not have a view. We ask the same question.

Ian Wright: In the end, if it is Government, it is all of us.

Q107 **Anna Turley:** We have discussed the political declaration a bit already, with a few references to it. It has been described as positive. It has also been described as a list of new year's resolutions. Do you think it provides you with the certainty that you were looking for in terms of the future trading relationship with the EU?

Ian Wright: I commend it. I am not being rude when I say it is new year's resolutions, but it does not have any solidity. The Macron thing is terribly, terribly important. As soon as you write down what your aspiration is and you accept that you have to negotiate it with 27 different leaders, you know immediately that they are going to say, "You can have that if I can have this". That is the difficulty. The idea that this is going to be done quickly is a stretch, if not fanciful. That takes us back to the earlier question of whether you see short-term certainty and long-term uncertainty. That is where we are concerned.

I like the language in the political declaration but I simply do not see how it can be delivered in its totality. Much of what is attractive about it is the totality of the narrative it produces.

Q108 **Anna Turley:** Can I ask some specifics on that? The wording used was "alignment of rules" as opposed to "equivalence". Do you think those terms are going to make a difference to you in terms of frictionless trade and so on?

Dan Mobley: The devil will be in the detail on that. We broadly welcome the ambition in the document. It is a signpost to what we hope will be a genuinely frictionless trade agreement. There is some language in there around zero tariffs and streamlined customs procedures that is obviously welcome. There is one very specific comment around retaining geographical indicators, which, for our industry, is really important to protect the integrity of scotch, gin, Irish cream and other products we sell around the world. It is not a legally binding document. We now have to see how, assuming the withdrawal agreement is passed, the next phase or negotiation goes.

Q109 **Anna Turley:** Does the fact that it does not specifically say "frictionless trade" worry you at all?

Ian Rayson: It is an indication that it is aspirational, but everyone understands the politics of it as well. It is obviously framed so that everybody can get into another, more complicated phase of negotiations. We are cautious. The honest truth is that was always going to be the case. This always was going to take years. It always was going to be complicated. That is what we are now facing into. We are just being cautious because there are lots of qualification there, understandably. The devil, as I think Dan said, will absolutely be in the details. It is all still to come but the aspiration is good. The aspiration is good.

Q110 **Anna Turley:** We have talked a bit in previous conversations about the length of time and what this means in terms of the long-term nature of our relationship. What do you anticipate the consequences will be if this is a long drawn-out negotiation? What is the impact on your industry?

Dan Mobley: For Diageo, we have said we can take any scenario in our stride. We, again, are atypical in terms of the structure of our business. We will not face, even in a very hard Brexit, new tariffs. Non-tariff barriers on our products with export to the EU are relatively limited. I have talked at length about the free trade with third parties issue, which is our primary concern. Obviously the longer this goes on, the longer it will probably take to resolve that issue. Maybe the UK will be able to expedite bilateral discussions and agreements with those countries, but we wait to see that. We would like the certainty. That is why we are keen to agree the withdrawal agreement and move on to the next phase, rather than turn back to yet another period of uncertainty if that is voted down.

Ian Rayson: We have a similar picture. The obvious thing is we do not quite know what the long-term impact will be. There will certainly be continued uncertainty. Quite how that plays out is difficult to tell but the very complexity of it and the amount of agreements that need to be renegotiated is remarkably complex and should not be underestimated. That is the point. Nobody knows how it will play out in detail, but that is the point, really. The uncertainty of it comes from that.

Ian Wright: I agree with what my friends have said. As I said earlier, we are in the situation where this option of the withdrawal agreement plus the political declaration plus the negotiation that has to happen is infinitely better than no deal, but it does contain a short-term level of relative certainty, actually significant certainty, if I am being generous. The longer term is very uncertain and will constrain people's behaviour. Until they know, in whichever particular area, whether it regulation, trade deals or whatever it is, that will constrain their actions.

Q111 **Drew Hendry:** Before I ask my question, Dan Mobley dropped in an issue of separate labelling in Scotland. My understanding of the proposals under the Alcohol Framework 2018 is they were to encourage manufacturers to put more health information on their labels. I do not think there is any suggestion for legislation at the moment on that.

Anyway, my question, which Ian Wright touched on very early in the session today, is whether you are satisfied with the proposals around access to labour, for example non-discriminatory between EU nationals and others, and temporary status for business purposes?

Ian Wright: You have to see this in relation to whatever the Immigration White Paper says. I welcome the level of engagement that we eventually had with the Home Office and the Migration Advisory Committee as it drew up its proposals, and I understand the Immigration White Paper is going to be published in the very near future, and that there will be a very extensive consultation, which makes me a lot happier than I would have been otherwise.

However, I go back to the point that our industry has grown and thrived—and I do not just mean manufacturing; I mean from farm to fork—on the access to significant levels of European labour, which sit at all points in the management universe. A lot of my members have CEOs who are Europeans. We have lots of finance CFOs, chief marketing officers, and we go all the way through to the person doing the packaging. I have a whole group of incredibly talented Europeans who work for me at the Food and Drink Federation. I am very proud of them and I want to have continued access to them. I am very disappointed that is going to stop.

I understand that the Government say that the referendum was all about immigration. I do not know whether it was or was not, but I know that this country and our businesses are better for the access we have to European workers. Every time we say something that might worry them, they get nervous about whether they can stay, which is what Dan was saying earlier. I wish we would welcome them. They have been great for our business and our industry, and I wish they could stay.

Q112 **Drew Hendry:** I would like to ask the others their thoughts as well on that issue, but perhaps I could add in this question: are you already seeing an effect on recruitment of EU nationals and labour that you need? What impact do you expect the political declaration to have?

Dan Mobley: Directly as Diageo, we have not seen any impact yet but, as I have said, our headquarters operations are relatively small and we do not have many EU nationals working in our manufacturing business up in Scotland. On both sides of the Channel it is about 300 people who are living with the uncertainty we have mentioned. Going forward, I do not expect a material challenge for Diageo but we await the details of the new migration policy. We want to have the ability to continue to move particularly highly skilled people around our operations, whether they are from the EU or not. We have 15 people on our executive management team. I am one of only two Britons on that team, and that is obviously the 15 most senior people in the company. That gives you a sense of the scale of our desire to move talent, where we can, around our global network. We are going to look to the Government to come forward with a migration policy that allows us to continue to do that.

Q113 **Drew Hendry:** What about Nestlé, Mr Rayson?

Ian Rayson: It is a fairly similar picture. We are not seeing lots of change of movement in our own direct Nestlé employees there, but if you look across the wider industry, quite clearly you can see there has been movement back to home countries. That is beginning to affect drivers in all sorts of parts of the industry. It is a worry for the industry but, directly for Nestlé, at the moment not so much.

Q114 **Drew Hendry:** You told us in the past that you had concerns over research and development.

Ian Rayson: Exactly. I was going to say in most of those areas we would reflect the broader industry Ian talks to. We do have a concern. We have a global R&D centre but it is based in the UK. By its nature, it is bringing in experts and researchers from all over the world but particularly from elsewhere in the EU. It is the nature of having a global capability that you want that diversity. You want people coming from different food cultures and different backgrounds. There is a diversity point as well as a skills point. Simply being able to get the right PhD students is not entirely the point.

That said, since we last spoke, for that group of skilled employees, things seem to be moving in the right direction. We are feeling more comfortable. In the short term, clearly the employees we have are safeguarded. We will wait for the White Paper to see where it goes, but a skills-based system you would expect to be quite helpful with that particular set of skilled employees. The details are still to come out but we are feeling a little bit more confident on that point.

Ian Wright: I should have said that we have to say that we welcome the Government's injection of certainty on settled status or right to remain, or the hilariously entitled "leave to remain". It must be a very ironic civil servant. That has been very good, but you also have to remember what is happening on the other side of this equation. If a European economy from which people are coming to work in the UK is thriving and growing faster, they are more likely to stay and more likely to go back. It is not just a one-way street. It is not just about the UK. It is also about what is happening at home.

Q115 **Drew Hendry:** What steps are you taking to improve recruitment and training of UK nationals? Could the Government do more to encourage training of UK nationals in this context? I will put that to you, Ian Wright.

Ian Wright: We have as an industry, over 30 years, been poor at an industry-wide attempt at training and retaining good people from the UK. That is not to say there is a massive supply of those because we have, in many areas of the country, full employment and we should welcome that.

Where the industry has been less good is at finding the right level to pitch qualifications and training, and retraining people who are coming back into the workforce because, for whatever reason, they have been away. If you look back, one of the problems we have now with the wider manufacturing sector is we have 400,000 workers, a third of them are Europeans, which is up from 5% in around 2001-02. The reason it is up is because we have an ageing workforce. At the moment, a third of our workers are over 55.

Actually, a big bulge of our people came into the industry in the 1970s and 1980s. I remember this because I am probably almost the oldest person here. Up until 1983, there were all sorts of qualifications that absolutely were made for food manufacturing and engineering. Sir Keith Joseph then changed the level of qualifications and that number fell off. That is why we have a preponderance of older people. At that point, we were doing this rather well. We should go back to that.

Dan Mobley: I said this when I was last before the Committee: regardless of where you stand on the Brexit debate, there is an opportunity and now an imperative to get better at training British workers. We do have a relatively tight labour market, but there are around 50,000 people sitting completely outside the labour market who are not actively seeking work and lack the skills and confidence to enter it. It has always been a moral imperative, I would argue, to support those people, for both Government and business; now it is going to become a commercial imperative if we see low-skilled labour from other parts of the world fall.

We work with other companies and the Government, through Movement to Work, which I think I mentioned, to try to find ways to give work placements to those people. For the hospitality sector, often entry-level jobs are relatively low-skill, and you can then build a career out of that. I would urge the Government to continue to work with us and other companies that join us in that process.

Ian Rayson: From a Nestlé perspective, for many, many years now, because the competiveness of our factories in the UK is absolutely key, we have been very focused on the productivity agenda in totality, and within that skills is absolutely fundamental. We would share Ian’s view of how that has evolved in the UK over the years. It is far from perfect but we do a lot of work, both with our own academy but also with the Food and Drink Federation in terms of working with Sheffield Hallam, where we have introduced a bespoke food industry engineering degree. There is lots of work going on, and particularly we at Nestlé are very involved in the relatively new Food and Drink Sector Council, which has within it a very important work stream on skills and the workplace. That longer-term industrial strategy skills work has been important for years and will become much more important.

Q116 **Drew Hendry:** I have one final quick question. Can all these skills challenges be met in a timeframe of a couple years?

Ian Wright: No.

Ian Rayson: It is a longer-term challenge than that.

Dan Mobley: I would argue they are already not being met. We have a skills shortage in the hospitality industry.

Ian Wright: That is not an excuse for not starting now.

Q117 **Drew Hendry:** No, I just wanted to know, specifically within a Brexit frame, whether or not that could be met, but you are saying it could not.

Ian Rayson: There was always a long-term structural challenge but now it becomes more acute.

Q118 **Antoinette Sandbach:** My next lot of questions are going to be around the impact of no deal. I think words like "infinitely worse" and "catastrophic" have been used already. Last year you told us no deal would be really bad. What would you expect the impact to be on the sector of a no-deal scenario in the short and longer terms, especially in terms of competitiveness?

Ian Wright: "Really bad" seems to be a remarkably unusual understatement for me. It is almost impossible to quantify, partly because none of us want to, but it is clearly going to be, in the very short term, very disruptive. A lot of attention has focused on the level of disruption, which I think is right. There will be disruption to transport and to availability, and there will be all sorts of other dislocations.

As I might have said before, longer term it is quite a grizzly prospect, because it is very difficult to see how the period of disruption ends. It will require concessions from our trading partners in Europe. There may be reasons why they commercially feel that is an opportunity. People say, "It is not in France's interest to do X, Y and Z"; it may not be in France's interest but it probably is in a lot of French companies' interests to hoover up the markets that have previously been well served by UK companies, so of course they are going to do that. It is very difficult to quantify but it is very, very unpleasant.

You might ask a bit more about this: the Government have started to grapple very effectively with this, both in quantifying the level of danger and also trying to meet the challenges it poses. I was rather critical of them last time. I have to say they have stepped up to address this no-deal stuff, particularly Defra and particularly the Minister responsible, David Rutley.

Q119 **Antoinette Sandbach:** Ian, you said to us earlier in evidence today the consequences of a no-deal Brexit would be very severe and that is the truth.

Ian Rayson: That is the position. We have been on the same journey and we have worked as a company very closely with Defra and David Rutley. They have really stepped up and are doing a great job. The point was that you can prepare and effectively crisis manage your way through this, but when you get into the detail—and there is a huge amount of detail—you cannot avoid some very difficult consequences. There is nothing that can be done in the timescale that is left. It would have taken years.

Q120 **Antoinette Sandbach:** What are the difficult consequences that you are looking at?

Ian Rayson: Some of them relate back to earlier discussions, but clearly the problems of the ports, particularly at Dover, are very acute. That is all now in the public domain. The amount of goods that can come through Dover is reduced substantially, which would happen with no deal, then you immediately get into some huge infrastructure problems, and you get into shortages and those sorts of things. That is certainly one.

As you start to drill down into it, and look at the interconnectivities in the supply chain of the industry, but also of Nestlé, which have been built up over 40 years where the freedom of goods and the single market has been the spur to enable all sorts of efficiencies and interconnectivities, it is in there that there is so much detail. You can immediately see there will be lots of unforeseen consequences, and lots of companies that think they might not be affected by it will find out that they are. With lots of what might be individual ingredients or might be relatively small components of a product, as we are getting into it, you realise with that seemingly quite small thing, if you run out of it you have a potentially huge problem.

It would be wonderful if you could pull us out of the single market like a three-pin plug but when you get into it, it is much more like ripping all the wires out of the back of a huge mainframe, and then when you are standing there with all these wires, it will take an awful lot of time to rewire us into a different trading system.

Q121 **Antoinette Sandbach:** Do you agree with that, Dan?

Dan Mobley: We are in a slightly different place. As I said, the atypical nature of our industry means we do not face many direct costs, even from a chaotic no-deal Brexit. It is the legal uncertainty that we dislike and the falling out of the free trade agreements that the UK is currently covered by with third parties. I gave an estimate in writing to the

Committee last time of that. It is not material against our £12 billion-plus of sales around the world but it is unwelcome; it is new cost.

On your specific point on competitiveness, we would not expect it to impact our competitiveness in the UK or the European Union because of the zero-tariff environment. Our UK business continues to perform really strongly. Where we might see an impact would be in those third-party countries. If a tariff barrier is raised around Korea for our goods, for instance, that is effectively just a new tax on us. Compared to a local producer in Korea, we just have to bear that cost, which either is a cost we have to swallow or will be passed on to drinkers in Korea. There will be, in some countries, a potential impact on competitiveness for us and against even other European countries that would still be covered by the free trade agreement.

Ian Wright: It occurs to me that one of the other costs is the nugatory expenditure that might be incurred by businesses in preparing for a no-deal Brexit.

Q122 **Antoinette Sandbach:** I am just going to come on to that. Would any of your members try to focus their exports away from the EU. Are any of them considering relocating their UK operations from the UK into the EU?

Ian Wright: I have heard of individual businesses that have opened factories on the continent amongst the 27 countries. Obviously if they have bases in Ireland, they may think about relocating their businesses to the Republic if that is something that helps them.

Again, I go back to my supply chain issue. It is not a casual or trivial decision; it materially affects the costs of what they are doing. To embellish or bring on the point, a lot of businesses are actively planning, and this includes stockpiling, forward-buying and warehousing. I know of one substantial business, which is a good indicator, that has allocated 10%, or £20 million out of £200 million sales—turnover, not profit—to no-deal planning. That wipes out its profit for the year, and it must have an effect somewhere. This is a family-owned, or at least family-controlled business, so it is not having to answer to shareholders in quite the same way that Dan or Ian will have to, but that is a big investment. I know of small businesses that have that benchmark of about 10%. It comes in all sorts of different ways, but it is a lot of money.

Q123 **Antoinette Sandbach:** Could you all give us some evidence about whether a tariff-free no-deal scenario is tolerable? In other words, what extent are non-tariff barriers the biggest problem for maintaining competitiveness?

Dan Mobley: For us, it does not help at all because we operate in a tariff-free environment with the EU. We do not face large non-tariff barriers but could do in a no-deal scenario, so it does not solve the concerns we have around Brexit.

Ian Rayson: The tariff impacts of no deal for us would be quite significant. It would probably be our biggest single risk of no deal. Some of the other risks like Dover and the logistics side of it are also very high. It would not mitigate across all our risks, by any means.

Q124 **Antoinette Sandbach:** Do you have any further comment?

Ian Wright: Not really. All I would say is that there are lots of costs, not least consumer confidence and shopper confidence. A shopper does not realise—and there is no reason why they should—what the cumulative effect of 40 years of the European Union has been on the goods they see in the shops every time they go to the supermarket. Apart from knowing that feta cheese comes from Greece and possibly Cyprus, they would not know where many of the products come from and nor do we try to tell them. If they disappear, they will not pretty quickly they have had an impact. That will depress shopper confidence.

Q125 **Antoinette Sandbach:** We are frequently told that short-terms costs of no deal would be offset by longer-term gains in relation to future trade deals that can be secured with new countries. What would need to be included to make a future trade deal, and no-deal Brexit attractive by future trade deals, if that makes sense?

Dan Mobley: I would not see the possibility of future trade deals compensating for the challenges of a no-deal Brexit for us. We would see opportunity from future trade deals, if they can be struck, but we would not prioritise a no-deal Brexit over that.

Ian Wright: The future trade deal we need is with the EU. That is the one we need first, second, third and fourth. We know from the Treasury analysis that a China free trade deal and US free trade deal, which are entirely laudable objectives that we should try to get, do not move the needle in the way that the free trade deal with the EU does. That has to be the first priority.

Q126 **Antoinette Sandbach:** Do you agree with that, Mr Rayson?

Ian Rayson: Certainly we would not put that in the same balance as no deal and pretend that one would balance out the other. No deal should be avoided, in our view. We would give that advice to all parties. Future trading from a Nestlé perspective is probably slightly different because we are a global company and we have factories and operations everywhere. When we export from the UK, what we mean is we are manufacturing products in the Nestlé factory in the UK and then that goes to perhaps Nestlé France to sell to Carrefour or whatever. It is a supply-into-company-into-market supply network. You do not suddenly have a whole new trade deal and then from the UK we can sell more in China or whatever. It does not work like that for Nestlé.

Q127 **Mark Pawsey:** There are some markets where there are quite substantial tariffs on your products. Are there not real opportunities available with future trade deals? Can you give us some examples of where you face big tariffs that you would like to see disappear?

Dan Mobley: The holy grail for scotch producers is India. It is the biggest whisky drinking nation on the planet. The number of people moving into the middle class and aspiring to have imported premium brands like Johnnie Walker is very, very material. They currently apply a tariff barrier of 150% to imported spirits. Nowhere on the planet apart from Indonesia is at that level of tariffs. Indonesia is a very small market, by comparison, for scotch. We would hope that over time, as we have seen for other sectors, India would bring those tariffs down unilaterally, because it is to the benefit of Indians and Indian consumers. That has not happened. One could only assume they would like to have a conversation about a future trade deal that might involve those tariffs.

Q128 **Mark Pawsey:** Do you think there is a better prospect of overcoming that tariff with the UK negotiating on its own or as part of the EU, as has been the case for the last 45 years?

Dan Mobley: If the UK was prepared to adopt a more liberal migration regime in regard to India post Brexit, that might be a means of unlocking lower tariff levels for scotch whisky, but I leave it up to you whether that seems to be the policy of the current Government.

Q129 **Sir Patrick McLoughlin:** Can I ask a question mainly to the two Ians, because you have talked to us about the importance of Dover-Calais, and the reason why Dover-Calais is so important is because it is the shortest stretch to the rest of Europe. We had an experience in 2015 where there was industrial action that brought a lot of chaos to the roads for about three weeks. I remember it well; I was Secretary of State for Transport. Can you tell us what roughly was the account of what happened in those three weeks, in terms of how they impacted on business then?

Ian Wright: You may be better at answering this than me, because I was not actually in this job at that point. I was in his job, actually.

Ian Rayson: I am afraid I do not have a sufficiently detailed response to be very helpful. It illustrated how quickly seemingly relatively small interruptions can have a disproportionately large effect. We certainly experienced that but, on the detail of it, I am afraid I was never involved in that.

Q130 **Sir Patrick McLoughlin:** That was industrial action. It was not pre-planned. At that stage neither the French Government nor the British Government wanted it to happen. The chaos was very dramatic. It is interesting. What do you think the answer is going to be to any problems we face at Dover-Calais in a no-deal scenario?

Ian Wright: First of all, the Government have some contingency plans. I do not know how confidential they are; they are so confidential some of them have been in the *FT*. They have a very clear plan about creating space for lorries. Clearly the main difficulty is that if you get the lorry across to Calais, either under the Tunnel or on the boats, there is not space for them to do the necessary checks. If, on 29 March at 23.00, we become a third country and we have third-country checks like they do on the Norway-Sweden border or on the Russia-Finland border, they take somewhere between seven and 15 minutes. At the moment, they take less than 30 seconds to get off. There is not any space to put the lorries, so what happens very quickly is the boats turn round with some of the lorries on them, or they do not allow the lorries on to the boats and they have to go somewhere, so one of the motorways gets turned into a lorry park.

As I understand it, that does not take very long. The problem with that is not just that you have all these lorries parked on the M20, the M26 or whichever one it is, but that you have all the lorry drivers and the capacity taken out. We have 600,000 lorry drivers in the UK, and we are already 50,000 short, so there are only 550,000 lorry drivers driving the lorries we have. These are the Road Haulage Association figures. You already have a road capacity problem.

You then have the problem that, not surprisingly, sub-contracting European drivers are going to be unlikely to come here if they think their lorry is going to get stuck on the return visit. You take more capacity out.

You then have the problem of the product not being able to get in and some of it not being able to get out. The consequences of that are, first, short supply; secondly, just-in-time affected; and, thirdly, exporters and importers who use that route very quickly not being able to sell their products and being vulnerable because they have no cash flow.

Q131 **Sir Patrick McLoughlin:** It would without any doubt create pinch-points elsewhere across the system as well. How is the trade shared between the roll-on, roll-off ferries and the Tunnel?

Ian Wright: There are other roll-on, roll-off ferry ports, obviously.

Q132 **Sir Patrick McLoughlin:** Yes, but they are longer and not as well established. The infrastructure into them is not as great as the infrastructure into Dover.

Ian Wright: Exactly, and several of them are in the south-east, so if there is a blockage, it is a blockage to them as well. I do not have the figure and I will get it for you, but Dover is extremely significant for all sorts of reasons. The consequences, as I say, fan out. I know there are alternatives being pursued but, as you have just said, if you take something to Folkestone or Immingham, while that will get in, the difficulty is you then have extra cost. If you have lorry drivers stuck on the M20 or wherever it is, you have fewer lorry drivers. We have already talked about the warehousing space. Costs go up.

Q133 **Sir Patrick McLoughlin:** A lot of the contracts of the haulage companies are not actually based around the time the driver takes. They are predetermined contracts, are they not?

Ian Wright: Yes.

Q134 **Sir Patrick McLoughlin:** Would there be a big attempt to renegotiate those contracts?

Ian Wright: Over time, they would be bound to be renegotiated. One of the things that has been talked about, and I am really quite dubious about this, is the idea you would waive the stuff on driver hours and extend it. That might be okay for a short period, but the first time somebody knocks over an old lady or old bloke, that would be a national scandal, and rightly so. We should not be compromising safety in this eventuality. I do not see any way around some of those issues. I do not know if my colleagues agree with that.

Ian Rayson: That was the same conclusion we had. We quickly reached the conclusion you could do some preparation but you cannot mitigate it. You were asking what the answer is. I do not think there is an answer.

Q135 **Sir Patrick McLoughlin:** I liked your description a little while ago, Ian, when you said it would like taking the wires out of the mainframe, because of the way these have developed over a certain period. Bearing in mind this is a possibility, what has the answer in your contingency planning been to this particular problem?

Ian Rayson: We have looked at a whole range of things, as I am sure others in the industry have. I mentioned earlier we are stock-building some in the UK to mitigate against imports into the UK, and we are also stock-building in other European markets on the other side of the Channel to mitigate risks about our ability to export. There is a certain amount of that we can do but it will cover us for weeks, not months. Again, I am not sure how much is in the public domain but, from what we are reading, if it is going to be a six-month hiatus, no amount of stock-building and that kind of work can mitigate against that. We have a certain amount of preparedness but we cannot mitigate against it altogether.

Q136 **Chair:** Ian Rayson, in answer to the first question today, you said certainty was welcome with the withdrawal agreement. Clearly everything that all three of you have said today have emphasised the risks of the no-deal Brexit and a chaotic departure from the European Union. We thank you very much for that evidence because it has been really useful for us as we reflect a year on from when we last saw you. Ian Wright has also suggested, I think—I do not want to put words into your mouth—that any arrangement that the Government can secure and have secured is not as advantageous for the sector that you represent compared with the arrangements we have at the moment. Is that right, Ian Wright?

Ian Wright: That would be the view of the vast majority of my members. One or two of them would take a contrary view. We talked about them, particularly those involved, for example, in the importation of cane sugar, for whom there is a completely reversed situation. The vast majority of members, and I think it is fair to say the vast majority of food and drink businesses, would take that view.

Q137 **Chair:** Would that be your view, Dan Mobley and Ian Rayson?

Dan Mobley: We would be slightly more balanced if this third-party FTA issue can be resolved. That for us is the main immediate headache. If we see countries agreeing to roll over those arrangements to the UK, the rest of the trading environment we face with the EU is broadly similar prior to Brexit. We would be able to manage without material change in that circumstance.

Q138 **Chair:** But it is not a better deal than the one we have at the moment.

Dan Mobley: We would only be able to judge that question in a decade or so. If there are new free trade agreements, if the UK gets an independent trade policy and strikes them with big countries like India or Brazil, there is some potential upside for our business. That is a very long way out. What we do know is no deal would be very bad news for us.

Q139 **Chair:** For you, it is insuring against no deal that is the most important thing for you at the moment.

Dan Mobley: And the rollover of the third-party FTAs.

Q140 **Chair:** Ian Rayson, how do you feel?

Ian Rayson: We would frame it slightly differently but come out at the same position. No deal is our biggest fear, for the reasons we have been discussing. When we first spoke at the time of the referendum and first looked at this, it was always the case in our view and the view of most of the industry that remaining and the current arrangement was the best option from a purely economic and industry point of view, putting the politics aside, which we would not get involved in. From an economic and industry point of view, it was always the case that remaining in the EU under current terms was economically the best case, and then it would become less attractive economically the further you moved away from the EU and all the harmonisation and single-market benefits that go with that.

That was always the case. To some extent, this is not a new position we are in. It was always going to have to be a compromise between the economic ideal, which is what we, from our perspectives, had, and the political and other objectives of leaving the EU. It was always the case that remaining was going to be the best economically. That is still the case. It is not a new insight.

Q141 **Chair:** It is a similar position to that of Ian Wright. You prefer the status quo.

Ian Rayson: We did at that time. We are now in a different situation. A no deal should be avoided and there are lots of positives about what we have on the table.

Q142 **Chair:** Dan Mobley, in an earlier question you also suggested the withdrawal arrangement and the transition period defers the decision. I think you suggested it defers the chaos or could defer the chaos. Could you just elaborate a little bit more?

Dan Mobley: The withdrawal agreement gives us a period of certainty. The transition is a standstill. It is status quo, apart from the FTA issue that I have talked about too many times. We still then have to come out of transition to something else. The assumption from the language in the political declaration is that both sides do want a liberal free trade agreement to be reached, but that will take a long period of complex negotiations. There is a potential that you get to the end of transition, and that could then be extended but you get to the end of the extension. As we understand it, the withdrawal agreement can only be extended once legally. If you do not have a deal done in that period, then you are going potentially into a no-deal scenario again, which again would be very unwelcome for us.

We spent a lot of time looking at negotiations of free trade agreements and being business partners with Governments on them. We want them to be as extensive as possible. Normally you start from a period of extreme divergence and are trying to reach a point of confluence. This is a weird trade deal because you are starting with convergence and potentially diverging a little bit.

Q143 **Chair:** The remark earlier from Ian Wright was that the remaining question about what we are transitioning to is something that will still give concern to your businesses and the businesses that the FDF represents.

Dan Mobley: The language in the political declaration is welcome to us and gives us more certainty than we had a week ago, but obviously there is a negotiation to be had.

Chair: Thank you very much, all three of you. I am sure it has given us all much to reflect on as we come to make decisions in the next couple of weeks. Thank you very much for your time today.