HOUSE OF COMMONS

Business, Energy and Industrial Strategy Committee

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

Wednesday 28 November 2018

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Watch the meeting

Members present: Rachel Reeves (Chair); Vernon Coaker; Drew Hendry; Mark Pawsey; Antoinette Sandbach; Anna Turley.

Questions 144 - 211

Witnesses

I: Katherine Bennett, Senior Vice-President, Airbus UK; Simon Henley, President, Royal Aeronautical Society; and Paul Everitt, Chief Executive, ADS Group.

Examination of witnesses

Witnesses: Katherine Bennett, Simon Henley and Paul Everitt.

Q144 **Chair:** Thank you very much, Paul Everitt, Katherine Bennett and Simon Henley, for coming back to our Committee to give evidence again on the impact of Brexit on the aerospace sector. We appreciated the time you took and the evidence you gave last year. Now that we have a draft withdrawal agreement and are voting in Parliament in a couple of weeks, we are very keen to get your perspective on that agreement, your worries and concerns, and how you are feeling now. I will kick off, if that is okay.

Last year, Paul, you told us the industry was "in a bit of a holding pattern", in terms of investing in the UK's aerospace sector. How has the last year been for your sector?

Paul Everitt: From a production point of view, you may or may not be aware that we are heading for another record year. Globally, demand for air transport is growing and, for the aircraft and engines that are produced, particularly in Europe, demand is very strong. There is definitely opportunity for investment in additional capability and capacity.

Q145 **Chair:** Has uncertainty had any effect at all?

Paul Everitt: I was going to finish by saying that that has not seen significant or increased investment into the UK. Companies that had committed to invest prior to the referendum have continued with those investments, but those that have options, if you like, have either chosen to hold and wait and see what happens or, in some cases, decided to put that investment into other markets or capability in other territories.

Q146 **Chair:** For Airbus specifically, Katherine Bennett, what have you done in terms of investment in the last year? In June of this year, your risk assessment stated that it will "refrain from extending the UK suppliers/partners base". What investment have you made in the last year in this country?

Katherine Bennett: I would use the same words, "holding pattern". That is exactly where we are. You are correct, Chair; in June we published a risk assessment. We felt we had to lay out our analysis of the potential impact of a no-deal Brexit so, yes, investments have been put on hold for Airbus.

Chair: You have not made any new investment over the last year.

Katherine Bennett: We have not made any significant ones, no. A number of things were already in the pipeline or had already been agreed, but nothing new has been invested in or decisions made in that way.

Q147 **Chair:** We will come on to the withdrawal agreement in a moment, but we are likely to have another couple of years of uncertainty, even if this goes through, before we know what our future trading relationship will be with the rest of the European Union. Does that mean that holding pattern would extend for another couple of years, potentially?

Katherine Bennett: What we said was our investments were put on hold in case there is a chaotic Brexit or no deal. If the withdrawal agreement is successful in some form or another, Airbus would consider continuing to invest, as the company has done over many years. We have great capability, as I said at the last Committee session, but, because of the uncertainty, which we want to see reversed, investments have been put on hold.

Q148 **Chair:** The chief executive of Rolls-Royce has suggested that Brexit has driven employees away from Britain. Has the past year affected the ability of aerospace companies to recruit and retain staff? Perhaps, Katherine Bennett, we will start with you.

Katherine Bennett: We continue to have a good number of applicants for positions. It is obviously up to us as an industry to continue to say that it is a great sector to be in. There are high-value jobs and we encourage apprentices and graduates to join. There has been some uncertainty and colleagues regularly say to me, "Is this a company I continue to want to work at? Should I encourage my children to work here?" and of course I say, "Yes, you should". Numbers fluctuate, of course, and our recruitment is continuing.

Q149 **Chair:** Are there any employees you employ from other EU member states who—and this is the point that Rolls-Royce has made—have decided they do not want to stay here, or have you struggled to recruit staff from other European countries?

Katherine Bennett: Interestingly, in the last 18 months our numbers have remained relatively stable, in fact slightly increased, but again that might be because they have made their decisions. When you are moving to a different country, it takes a long time to work these things out. It is relatively stable at the moment, so we do not raise such a red flag as Rolls-Royce has on that.

Q150 **Chair:** What about the industry more generally, Paul Everitt?

Paul Everitt: I would not say it is the primary issue that people are concerned about. It is an incredibly sensitive topic. People, particularly EU nationals who are based in the UK, are incredibly sensitive about what the future holds for them. It is more a question of where there are natural breaks. Either people are coming to end of contract or there are opportunities within the same business to move somewhere else. That is where people are making choices and, actually, they feel safer and more secure moving. We are probably not at the front end of this type of activity. Most of our employees are long-term and paid relatively well compared with other parts of the economy, so they are a bit more sticky into the UK, but there is a definite unease that has pervaded most non-UK citizens during this period.

Q151 **Mark Pawsey:** Can I follow up Katherine Bennett's comment about Airbus's investment? You told us that projects that were already in hand have gone through. You then said you are in a holding pattern and things have not progressed. Could you give us a guide, without telling us about the specific projects, to the level of investment that might have been expected to take place if the Brexit vote had not gone the way it did?

Katherine Bennett: We spend about £500 million a year in R&D. We are continuing to keep that budget as stable as we can, but we have not confirmed any further spend since we made that announcement in June. Let us hope that we continue in a normal world with that level. That is the figure we would aim to spend and, at the moment, we have not confirmed in public any further investment since June.

Q152 **Mark Pawsey:** How much have we missed out on? That is what I am trying to get from you. Might £100 million of investment have taken place if we had not voted to leave?

Katherine Bennett: I am not at liberty to disclose that figure and it is difficult to quantify because, as I said, our projects are quite long-term, and decisions are made at different stages of a product lifecycle. We have not quantified that figure, but we know the figures we have spent on preparations.

Mark Pawsey: We are talking about hundreds of millions a year.

Katherine Bennett: I would say millions.

Q153 **Anna Turley:** You used some interesting words around "holding pattern" and you talked about how those businesses with options have either held their investment or invested in other areas. I am interested in the role of British aerospace firms in bidding for work within European supply chains particularly. Last November, you said to us that you were already seeing contracts being turned away from UK industry because of the uncertainty. Has Brexit impacted the success of British aerospace in European supply chains?

Simon Henley: If I could, I will lead from a space point of view. As well as being the president of the Royal Aeronautical Society, I am working in the space sector at the moment. We have seen, as was predicted and was starting to come through when we gave evidence last time, companies being stopped from bidding on Galileo. In fact, we have now seen that develop and we are seeing other European companies bidding to take on work that UK companies had previously won. That is a concern in the space sector in particular. There is evidence now that we have lost work that we would otherwise have expected to win.

Q154 **Anna Turley:** Could you put a value on that at all?

Simon Henley: No, I do not have a figure to hand. I can come back to you on that.

Chair: That would be helpful.

Paul Everitt: In the supply chain, we are seeing no lack of interest from both European and international companies that are looking at the UK capability and supply chain, but they are preparing for the future rather than committing now. We see it as an incremental sale, so probably in the millions and tens of millions for longer-term contracts, but it is difficult to quantify what you have not won.

Q155 **Anna Turley:** Can I ask you, Paul, if any of the decisions that have been taken are irrevocable? Has anyone already moved out?

Paul Everitt: Unfortunately, no deal is the only scenario against which people can realistically plan, so, as you would expect, they have gone through a set of steps that are about mitigating the dangers. As I said in my introduction, our focus is on delivering to customers who want more product so, in the end, it is about how we make sure our supply chains are resilient, not about changing the location of work. The steps that companies have taken are about how we build some resilience into that situation. You arrive at a point, for large and small companies, where the investment or cost becomes prohibitive or is only beneficial in the worst outcome. Therefore, people will hold at that point, because hopefully we are in a position where the worst outcome is avoidable and, therefore, your risk profile says you will waste your money. People have taken steps that are comfortable and make sense in all circumstances, and now they are in a position where they will only take the next step at a point when they feel that there is only ever going to be one outcome.

Q156 **Anna Turley:** Katherine, can I ask you specifically? You have had the Eutelsat/Airbus deal. Is that a vote of confidence in the UK sector?

Katherine Bennett: Again, that negotiation occurred before the crisis point hit on the position of the future of the UK in the EU. If I can add on Galileo, which goes back to your first question, obviously we were disappointed that UK business was not in a position to win that and we understand the reasons why. We have had to move 80 jobs to France to undertake the older part of that contract, and the contract went to another company.

We are now bidding for another space contract called Copernicus, which has a potential €1 billion benefit to UK industry, so we are working on that. The British Government are fully aware of that and supporting us, but we hope that we do come to the same situation with that. Our Stevenage site is working on that, as are our Newport and Portsmouth sites. It is all important work for UK-based parts of our company.

Q157 **Chair:** What do Government say to you about that bid?

Katherine Bennett: They are continuing to support us and make representations to the European Commission, but we understand the rules: you need to be an EU national to work on the project. It is linked to national security. It is a shame, because we have real specialist skills. Surrey Satellite is another Airbus company that also provides work in these key areas. We are already delivering on these projects; it is just the next phase of bidding. We are in active discussions with Government here and of course with Brussels.

Q158 **Chair:** What does the withdrawal agreement say specifically about Copernicus?

Katherine Bennett: It is more the political declaration. There is a line in there saying that the Government are determined to continue working with the European Commission on space co-operation, which goes alongside a lot of our companies. There is a line in there that is important.

Q159 **Chair:** Given what has happened with Galileo, how confident are you, Katherine Bennett?

Katherine Bennett: We feel we have a great case to put on the table and, once agreement is secured, which we are very hopeful it will be, we will start to put all our cards on the table and ensure that we are in the best place to win that.

Simon Henley: The withdrawal agreement repeats the language that caused the Prime Minister to make the declaration about "going it alone" on Galileo, around the involvement of non-EU nationals in security-related programmes. It is an area of great concern for us in terms of our ability to play into those programmes where EU security can be called upon as a key factor in appointing people.

Q160 **Chair:** Paul Everitt, did you want to come in on this point?

Paul Everitt: Only to the extent that the political declaration is a permissive document. Therefore, we hope there will be opportunities over the coming couple of years to get the detail right that gives the UK a special third-country status, which allows us more access than just a third country. That is really important across the national security and space areas. The language signals a number of things that we take positively, but there is a lot of work still to do.

Q161 **Chair:** Presumably other European countries will be sizing up these opportunities for their own national economies. How confident are you, because it would need the agreement of the 27 continuing members of the European Union for us to be able to bid for and get this work in the future?

Paul Everitt: At an industrial level, I have no worries. I do not have a concern. The issues are political, as opposed to industrial. There is always talk of people positioning themselves to win work and, yes, there will be individual companies that think they have an opportunity.

Chair: I do not mean companies; I mean countries.

Paul Everitt: We will see but, in most cases, across Europe and particularly around aerospace and space, people recognise that the UK has a lot of capability and huge strengths. There are as many who benefit in Europe from UK businesses continuing to have a leading role as would benefit if we did not. Across the 27, we would expect to get a reasonable deal out of it.

Q162 **Vernon Coaker:** I wonder whether you could say something about what it means for the rest of Europe, given the massive involvement we have or have had in Galileo, and the data-sharing and the security of sharing data that we currently do. If we are outside of that they will lose as well, because they will not have access to our data. How is that going to work?

Simon Henley: Galileo, without the involvement of UK companies, will be more expensive and slower for Europe. There has been a conscious decision, for security reasons—or security reasons have been cited—to exclude us. Security reasons have trumped the EU's interest in terms of making the programme quicker. We are looking at the big statements around a go-it-alone programme—our own programme—and programmes have been cited in the region of £4 billion to £5 billion. If we are going to go it alone, we will need to see how that is going to move forward.

Katherine Bennett: Just to be clear, the current Galileo programme is still working well; Airbus is fully involved in that and we are a responsible company. To go back to the Chair's question, you may remember that, last time I appeared here, I said that "Airbus is the part of Europe that works". We do not see ourselves in isolation as one country or another. Our colleagues are working on Galileo across a number of countries and they seriously like working together in that way. It works, but you are correct that other countries have ambitions as surely as we do, as a country that cares about its economy. That is life.

Q163 **Mark Pawsey:** Building on what Katherine Bennett said about Airbus being "the part of Europe that works", when you came before us as a group last time you told us what a disaster a no-deal Brexit would be, so I want to ask you about your thoughts on the withdrawal agreement that the EU proposes. If implemented—if we support it—does it take us back to business as usual?

Paul Everitt: It definitely does not take us back to business as usual.

Q164 **Mark Pawsey:** How close to business as usual would it be?

Paul Everitt: That is a difficult call for us to make at this point. When we came before, and shortly after the referendum, we set out for ourselves as the industry what a good deal would look like. If I recall correctly, there were five elements to that: the transition arrangement; to remain part of the European Aviation Safety Agency regulatory regime and the European Chemicals Agency; to ensure there was no friction at the borders; to ensure that we had participation in major EU R&D programmes, particularly space ones; and to ensure we had access to the right pool of skills. Against most of those measures, possibly weakest around access to skills, what we see in the withdrawal agreement and more importantly in the political declaration are things that reflect that language and our priorities. For us, it is not as good as it is today and it will never be as good as it is today, but it is an awful lot better than the chaos that we would have, and I would have a stronger conviction that we would see, leaving the EU without a deal.

Katherine Bennett: When the draft agreement was first published, we made a statement that we see it as a welcome first step. To repeat, our concerns were about certainty and lack of clarity. We can see a lot of benefits in the agreement, but we are still looking at it in more detail. Some of the customs issues, et cetera, are quite complicated. The other key point that a lot of businesses have made is that they only want to adjust for one set of rules once; they do not want to have to keep changing. We are obviously keeping a close eye on regulation.

Some of the concerns that we raised at the Committee here, as Paul has outlined, we are relatively comfortable with, for example on EASA, which I am sure we will come to. Movement of people, you may remember, was a big issue for us. We are making progress and do not want to go backwards. Again, we are a responsible company and we feel the country needs to act in a responsible way, but we are looking at it in a lot more detail.

Q165 **Mark Pawsey:** Presumably the ability to move parts and components around on a frictionless basis is an important aspect of the agreement, from your point of view.

Katherine Bennett: We want the lightest touch in checks at customs. We are tariff-free, you may remember, on the civil aerospace side of things, but there are also the non-tariff barriers. We want the dial to be as low as possible in terms of any extra burdens.

Q166 **Mark Pawsey:** Is it low enough?

Katherine Bennett: We are still looking at the detail, but there has been good progress and we are pleased to have seen a step forward.

Simon Henley: Certainly the withdrawal agreement itself brings a level more of certainty, which has helped. I would echo Paul's words that it will never be as good as it has been until now. The political statement is permissive. There are areas where we would like it to be firmer, but we understand why that is difficult to do at this stage. There are one or two areas where it potentially opens up backtracking, but generally it is permissive, and we think it is positive. The withdrawal agreement gives us a level of certainty that we can move forward on.

Q167 **Mark Pawsey:** Paul, the withdrawal agreement covers the transition period, which is to cover us until the trade agreement is in place. Do you have any concerns about the length of the transition period? Is it long enough, in your view? Are you concerned about the possibility of just one extension? Where do you see that panning out?

Paul Everitt: We would always prefer to know exactly what the new conditions are and then have a two-year-plus period to adapt to them. Much will depend on the speed of progress of the more detailed discussions. We are hoping that the way in which some of those negotiations will be structured will allow—while I am sure nothing will be agreed until it is all agreed—sufficient clarity in various elements at relatively early stages. That will allow us to ensure we maximise how much preparation we do through the process. If you are asking whether we would like longer, clearly we would, but that is a political issue over which we have little or no control. I am sure there are opportunities. There is an opportunity to extend the transition period and clearly that is an important and welcome addition.

Q168 **Mark Pawsey:** Is the future trade arrangement likely to involve any changes to supply chains? Perhaps this is one for Katherine, because of the integrated nature of your business. Are we likely to be able to carry on with the existing arrangements well into the future?

Paul Everitt: If we minimise the level of additional cost associated with new customs arrangements, there is no reason why we would see major shifts in our supply chains. Clearly there will be a big onus on UK businesses to maximise their own productivity and competitiveness, to ensure that any additional costs that are going to be applied from changes can be absorbed in a way that keeps us competitive globally. That is part and parcel of the challenges ahead. Fortunately, we are what we would term a long-cycle business, so we have products that have been in operation and production for a number of years. Those in our portfolio will be required for many years to come, so people are not going to change their supply chains massively; there are always tweaks at the edges. The opportunity for us is that the volume of business is growing. We have an opportunity to increase the rate of growth of the UK supply chain if we get the conditions right.

Q169 **Mark Pawsey:** Katherine, do you agree? Do you see that the supply chains can be changed in a way that would not be the case if there were alternative arrangements?

Katherine Bennett: There is still a lot of negotiation to do as part of the future arrangement and we do not know what all the procedures and related costs will be. That is where we, as a company that has a footprint in other EU 27 countries, will be working with our other Governments to ensure that, as Paul said, it is as frictionless as possible. Our supply chain is fully briefed on our whole approach to Brexit, and we have written to our suppliers twice over the last year to explain to them the preparations they need to make in the case of no deal. We will continue that dialogue whatever happens.

Q170 **Mark Pawsey:** How do you see the UK's role within EASA during the transition period and beyond?

Paul Everitt: The key thing for us is the standstill arrangement through the transition period. As with other EU institutions, we do not get a seat at the table and we do not have as much influence but, in EASA, most of the detailed work is done through industrial working groups.

Q171 **Mark Pawsey:** Would a reduced level of influence be harmful to British industry?

Paul Everitt: We would always prefer there to be a seat for the Government at the table, because it gives us that extra reassurance that there will always be somebody in the room pulling for you. Clearly that is not the way it is going to be going forward, and we have already had discussions with a number of Government Departments about how we are going to exert influence in some of those international institutions when we do not have a formal seat at the table.

In EASA, I would stress that most of the detailed work is done with industry in industrial working groups, which are part of the EASA infrastructure. By and large, it is not a contentious rule-making body, so, from our perspective, we are comfortable with the withdrawal agreement. In the political declaration, there are two specific references to both EASA and the European Chemicals Agency, both in the goods section and the detailed aviation section. That gives us sufficient confidence that we are going to continue to have the kind of relationship that, although it is not what it is today, will minimise disruption going forward.

Q172 **Antoinette Sandbach:** Given that there are other ways of influencing it through the working groups, will losing our vote in EASA really make a difference?

Simon Henley: In the last five years at least, there have only been two votes at the management committee. Exactly as Paul has said, the work is done by the influential bodies. One thing we need to ensure as we take the political declaration forward is our involvement in those groups, because there are some statements about the UK being invited to sit at particular tables when something is of direct interest to the UK or the EU wants the UK's view. It is not necessarily automatic. There are already other nations that occupy that position as a third-party member to EASA.

Q173 **Antoinette Sandbach:** Is that through the EEA EFTA?

Simon Henley: No, it is through membership of EASA itself.

Katherine Bennett: The key thing for us with EASA, as we flagged to you last time, is we have aircraft to deliver to customers. My company's responsibility is to look at our immediate business needs. As Paul and Simon have said, we are comfortable that the process is going to work at the moment. It is not ideal not to have a place at the top table, but my company obviously has that through our other EU 27 footprint representations.

I will make a point to echo what I have said before: international or global regulation is more important to our industry. We are lucky to have a strong CAA. I remember Simon said at the last session that we have a lot of very good UK engineers working in EASA and we are hoping that that influence will continue, just because we have good engineers. That is the important thing; it is the relationship for us as well, and everyone has heard of EASA now. That is a step in the right direction.

Q174 **Antoinette Sandbach:** Picking up on the CAA, are you satisfied, Simon, that the Government and the CAA have sufficient contingency planning in place?

Simon Henley: I have seen contingency planning. It really comes into being if there is no deal. Our view universally is that no deal for this sector would be "chaotic", as Paul describes, at the very best.

Q175 **Antoinette Sandbach:** At the very best it is chaotic. What is it at the very worst?

Paul Everitt: You do not want to know.

Simon Henley: We do not have a no-deal contingency for EASA membership. We would have to revert to the CAA. The CAA does not have the capacity right now. I am going over ground from last time, but the transition from national regulation to EASA took about 10 years, to bring EASA up to the standard it is at now. Trying to reverse that at short notice would be the chaotic piece.

Paul Everitt: We are fortunate that, as an organisation and with our member companies, we have been involved with the DfT and CAA regularly over the last six to eight months, down to weekly calls, trying to make sure we have a good understanding of what a no-deal situation might require and also what level of resources the CAA would require. They are recruiting people to provide themselves with some contingency and we, as an industry, are helping them with that process.

Our worry is that, having now spent six to eight months looking at it, no deal becomes more complex than even we had anticipated. If you like, there is a managed no deal and an unmanaged no deal. In the DfT's technical notices, which you may have read, there is reference to what is called a "bare bones agreement". There is a recognition that there has to be some kind of working arrangement agreed, even if it is for an interim period until you have some fall-back formal arrangement. That presents problems, but we are trying to understand how we might do that. The worst outcome is if there is not even a managed approach and we have

27 different approaches to each and every set of issues. That is the anxiety for most organisations at the moment.

Katherine Bennett: I would add that, in endeavouring to be responsible, Airbus has encouraged all our suppliers that need EASA certification to apply for what is called third-party status. That is going through the processes at the moment so, if there is chaos or whatever, they will still have that in place. EASA is working through that. There is a resource challenge for them to have to deal with all those applications, but we are ensuring that our business can continue and our suppliers can continue to supply us. A lot of work has been done on that across the industry.

Q176 **Antoinette Sandbach:** Katherine, you mentioned international regulation and that this industry is principally governed by international regulations. From that point of view, we hear a lot of talk about rule-takers and rule-makers. What is the role of the UK at that international level and, from that point of view, are you happy? Will the industry be manufacturing to European and international standards, in any event?

Katherine Bennett: If I take it from the top level, the UK has a seat at ICAO, and it has had that for a very long time. That is where emissions regulations are worked out on a global level. Our Government play a strong role in that and have over many years, as do other European countries, and they work together well. Things are then cascaded down to a European level. Again, because in this country we are such a big sector and we are good at engineering and know about aerodynamics, we have had a huge influence on that. To answer your question directly, I am very confident that we as a sector will ensure that UK aerospace needs are considered as European legislation is being considered. Ever since I have been at Airbus, we have said that regulation needs to be on a global level.

Paul Everitt: The reality is that, as with most regulatory environments, it is Europe and the US. The issue is about influence. Currently we have a strong influence in Europe. That is not to say that we do not have engagement in the US, but the reality is that there are others that are better positioned and use that influence. Our challenge, going forward, is how we maintain a level of influence within the European regulatory environment. That is why we were keen to establish as much participation in and membership of the EASA regime as possible. It is less to do with what we are producing today, and more about the products that will be and are being developed for future manufacturing and those requirements.

We are talking at the moment about a bunch of stuff around the electrification of flight and potentially urban air-mobility solutions, as we like to call them. There will be a whole set of regulatory detail that will evolve around the product, airspace management and the safety requirements. They will be set in the US and/or in Europe. The issue is how much opportunity we get to ensure that the cutting-edge and leading-edge stuff we are developing are the trendsetters in the regulatory environments.

Q177 **Chair:** I will just follow up on a couple of points, particularly with you, Paul Everitt. You said that we currently have a strong influence in Europe, through EASA, on the rules that govern your sector. Is there any future scenario in which we have as much influence as we have now?

Paul Everitt: It is difficult to envisage one in which we would. If we are a member, both of EASA and the wider European institutions, we will have a much stronger position. We are not going to have that. Clearly we can only be in a weaker position. Our challenge is how we make the most of it. We cannot be better than we are.

Q178 **Chair:** The idea that, once we have left the European Union, we will have greater control over the rules that govern an important part of our economy is not going to be the case, at least for your sector, is it? We will have less control over the rules that govern your sector.

Paul Everitt: The danger for the UK outside of the EU, it seems to me, is that the US and Europe are where international rules will be developed, or the leading edge of those, and we have to sell into those markets. Irrespective of our position, we have to meet whatever the regulatory requirements are to sell into Europe, the US or other global markets.

Q179 **Chair:** Whereas at the moment we have a say in those rules, in the future, during the transition period and presumably in our longer-term relationship, we will not have that.

Simon Henley: We will have the ability to influence, as we have spoken about. What we will not have, if it comes down to it, is a decision on the final ruling, because we will not be at the table.

Q180 **Chair:** Will British people be able to work for EASA?

Paul Everitt: We have been around this. I think they will, but some of that depends on what happens through the political declaration and how that impacts on citizens' rights. We know informally that an awful lot of UK citizens are currently working for a range of European institutions, who are applying either for citizenship or their permanent leave to remain, whatever it might be called.

Q181 **Chair:** It must be a good thing. Katherine Bennett said before that, without having somebody at the table, it is not clear that somebody is pulling for you in these things. Having neither British citizens nor voting rights will mean we have less control over the rules that affect your industry. Is that the way you see it, Katherine?

Katherine Bennett: As Simon also said, there is a top-level committee for EASA, but there are so many working groups. That is how it actually operates now. We will still have influence there if we become an associate member, so there are ways of influencing as well, but it is not ideal.

Q182 **Chair:** Paul Everitt, there is something you said when you gave evidence to us last time. We asked whether you could guarantee that flights would be able to take off on 30 March next year. Last time you said that you would not be able to give that guarantee. From where we are now, would you be able to give that guarantee to people?

Paul Everitt: We have definitely moved into a happier position. Where we are currently, I cannot guarantee there will not be disruption, but I guarantee they can take off and land. From our point of view, we have definitely moved forward. With the withdrawal agreement and political declaration, life goes on as normal, which is a good thing. If there is no agreement and we head into no deal, I am comfortable that there will be the ability to take off and land, but there will still be a high risk of disruption and, in some cases, not all of the availability that people currently enjoy. On our preparation, from an industrial point of view, as Katherine said, we are taking a responsible approach and are stretching everything that we can to ensure that our ultimate customer has as many options as possible. The reality is that you cannot replicate what we currently have.

Katherine Bennett: We keep in close contact with our airline customers. They can answer this question directly of course, but they say to us—and we are checking with them regularly if there is anything we can do to help—that they are confident that flights will be able to go.

Q183 **Drew Hendry:** Paul, you just mentioned disruption but, when you were talking about the political declaration earlier, you said it would not be business as usual. Katherine, you said you were looking closely at customs issues and wanted the lightest touch. In the absence of a commitment to frictionless trade in the declaration, do you accept that future trading arrangements with the EU will involve additional delays?

Paul Everitt: Katherine used a phrase about trying to dial those down as much as possible. It is clearly not what we currently have. I have a pretty diagram I could show you of the various other steps that would be necessary. It is a question of how easy it will be to overcome those in whatever the new arrangement is. What we have taken from the political declaration—and I have put a number of direct questions to the team at DExEU—is around the intent from the UK to be frictionless or as frictionless as possible. Is that still the intent and is that the basis on which that agreement was struck? They assure me that it is.

Q184 **Drew Hendry:** From what you have said, it sounds like you are anticipating additional delays.

Paul Everitt: Being outside the EU and being a third country requires additional steps in the process. What both parties have agreed, as written in the declaration and from the conversations that we have had, is a recognition that we need and want to find ways and means of minimising, reducing and, in some cases, eliminating as much of that as possible.

Katherine Bennett: We see deep regulatory customs co-operation, a free trade area and the lowest dial as possible for us. We have a huge taskforce within Airbus that is looking at and analysing all the processes that we would have to go through in customs. You will appreciate, as I said last time, that our parts cross over borders a lot into France, Spain and Germany many times. Our suppliers have to move parts a lot, so that is this frictionless trade we are seeking. We just want as free trade as possible. It is for us to make that case as well and give examples. We appreciate that.

Q185 **Drew Hendry:** You are also anticipating additional delays.

Katherine Bennett: No, we are not anticipating; we have to prepare for the worst, but the political declaration is definitely a step in the right direction.

Simon Henley: One thing I would say is that we will walk a bit of a tightrope as we go through the negotiation during the period of the withdrawal agreement. The more the nation wishes to diverge from the EU rule set, the more you can expect barriers to be harder to overcome. We have said that we will maintain harmony in the interim period at the moment. In that way, you maintain the minimum barriers. If we choose to diverge more, you can expect the barriers to increase, so it will be a tightrope all the way through.

Q186 **Drew Hendry:** On that tightrope then, again for all of you, how much friction can the aerospace sector cope with in order to operate competitively and effectively?

Katherine Bennett: We operate with just-in-time delivery, not quite as much as the car industry, but the UK produces a huge number of wings per month and that is ramping up for our smaller-size aircraft. We are concerned that, if there is disruption at the borders, it will potentially cause an impact on us being able to deliver the wings to go to our final assembly, to then deliver to airlines. Again, we have no tariffs. It is just understanding the processes for some of the non-tariff barriers and also ensuring that there are no customs burdens in the other countries in which we operate. Again, we are a big company. We have processes in place and we are examining this, but we are preparing for no deal as any other company is.

Paul Everitt: When we came before, we said we had done the work and it has not really been challenged. We estimate that a default position as a third country would add something like 10% to our costs, which is equivalent to about £2.3 billion. We do not yet know, in the political declaration, how much of that cost we can eliminate. That is clearly our intent, and one would hope the UK's and the European Union's intent is to try to find a way to minimise that additional cost. I am not clear what it is at this point in time.

Katherine Bennett: Airbus has so far spent €15 million on preparing for no deal. I would much rather that money had been spent on research and development or more skills, but those are the preparations we are making.

Q187 **Drew Hendry:** Just following up that point, Katherine, given that you have spent that money, how soon is real clarity required on the nature of the future relationship? What do you anticipate the consequences of a long, drawn-out negotiation with the UK aerospace sector would be?

Katherine Bennett: If it continues to be a long, drawn-out process, it is still the status quo, but the point that we have always tried to make is that we need certainty as soon as possible, so we hope things move on.

Q188 **Drew Hendry:** Do you anticipate having to spend a similar amount?

Katherine Bennett: That was a one-off cost initially, and it was spread over a few months, but this was from analysis working with IT companies on the cost of changing our procedures, working with our EASA experts and working with our supply chain. We are taking on more warehousing to stockpile parts, which we have had to do, and other aerospace companies have had to do the same.

Q189 **Drew Hendry:** I would like to have Paul's and Simon's views on a long, drawn-out negotiation. Paul, you talked about disruption earlier.

Paul Everitt: For us, a slightly less tangible thing to be able to monitor and measure is if we move into the negotiations around the political declaration and it is managed as most European-style agreements are. It is a technical discussion done with a bunch of officials from both sides working through the detail. If there is not a continual and divisive political debate, a lot would happen relatively quickly and people would be comfortable. They will know that it is a technical discussion and not a political one, so technical details will emerge over time. As they emerge, we will be able to begin to prepare.

Q190 **Drew Hendry:** The question is about that length of time, is it not?

Paul Everitt: The sooner the better, but I am reflecting how the political environment in which those discussions happen and that technical detail is delivered will make a big difference to how anxious or uncertain people are. If it is contentious and divisive, and political debate goes on as it has done, people will be very uncomfortable and that will not encourage them to make key decisions. If, however, as I have outlined, it is a technical discussion somewhere in the middle of the pages of specialist publications only, we can probably make some good and quick progress. Even though we would have to wait until the ultimate decision and agreement, a lot can get done in between.

Drew Hendry: It is the best of the worst-case scenarios for you, then.

Paul Everitt: Yes.

Simon Henley: It is important to understand that the burden of this will fall at every tier of the industry. I have been a supplier to Airbus in one of the programmes. It is the supplier's responsibility. Airbus is talking about moving large chunks of aeroplane between their various manufacturing sites to the final assembly site, but it is the responsibility of the supplier to get their parts to the point where they are going to be incorporated into those large chunks, on their own nickel. If they are experiencing delays, they will inevitably end up stockpiling at every tier. The costs will go up. Paul has talked about 10%. There is a danger there, because it is a very competitive environment and it is already a very lean environment. Forcing UK companies to increase their efficiency to absorb those sorts of costs in order to remain competitive could be very damaging. I do not have an example, but I know, having sat there, how hard that life is.

Q191 **Drew Hendry:** I want to move on to skills now. Are you satisfied by the proposals around access to skills—for example the non-discrimination between EU nationals and others, and temporary stays for business purposes?

Katherine Bennett: From an Airbus perspective, that is a key area for us, from our own analysis of the situation. We have people who move around regularly between our sites. That is one of the benefits of working for a global company as I do. We have working parties who potentially have to go at very short notice to do some work on a wing on our final assembly line, and we have discussed that extensively with not only the British Government but our other Governments. Yes, the current proposals in the withdrawal agreement ensure that those working parties would be able to do that, because they would be providing a service. We have to watch which clause it gets caught up in but, at the moment, we are comfortable with what is said in the agreement there.

Drew Hendry: Paul, earlier you mentioned unease around EU nationals.

Paul Everitt: Average salaries in aerospace are about £46,000, so we are unlikely to have a first-round impact around the various thresholds that are being talked about. Our concern is of second-round effects, which is that we have people who will suddenly be in far more demand from a range of other businesses, because they are not able to access such an easy pool of resource. We are already facing some challenges in terms of the demographics in our industry. We are growing and looking to recruit people. Therefore, our concerns are that, if it is harder for people to access the UK, we will face the consequences of finding it more difficult to find the right people.

Q192 **Drew Hendry:** Could you give us an example of one of those challenges?

Paul Everitt: To try to be competitive, we are incorporating digital technologies into manufacturing. While some of those are not necessarily PhD-level skills, many of them are technical skills, so well-paid, long-term jobs on the shop floor in our environments. They are not as easy to find when the market is buoyant, so are a little easier at the moment, but a number of other sectors are not having quite such a good time. Those people are not easy to find and they are not as mobile as senior managers or degree-level postgraduates, who tend to be more mobile and are prepared to move around both the country and different countries. Technical-level skills are much more geographically fixed. Therefore, it is much harder to fill those vacancies when they arise.

Katherine Bennett: We are waiting for the immigration White Paper, which is key. We often have specialists who come in from outside the EU. To give you an example, Mr Hendry, there are only a few lightning engineers in the world. I think I have mentioned this before. You may need to get somebody from India or somewhere who is specifically trained in that area. That is where you get into complications with visas. We are looking forward to the immigration White Paper.

Drew Hendry: I need to find out more about that job title.

Simon Henley: As a professional engineering institution, we are a register of qualifications and that is our area of interest here. We welcome what is in the withdrawal agreement about mutual recognition and the language in the declaration in terms of the intent to carry that forward. As ever, it is important that the devil is in the detail, but we certainly think it is moving in the right direction.

Q193 **Drew Hendry:** Paul and Katherine, what impact do you expect the political declaration to have on your ability to attract staff from EU countries?

Paul Everitt: We hope it will be easier once we can say to people, "We have a withdrawal agreement, so nothing is going to change for the next two years. Clearly there are also provisions in the political declaration that mean your job will be here and there is opportunity for you." We hope that creates a much more positive environment in which we can work with both our current employees, but also those who we want to attract into the sector.

Katherine Bennett: The UK is an attractive place for my colleagues in Airbus, aerospace engineers and, as Paul said, other digital experts to want to come and work. We are strong in many sectors. Just this morning, I had an email from a German colleague who wants to work in the UK. People want to come. Obviously the fact that you can learn better English helps. We are a global organisation and Airbus's language is English. We are good at engineering and aerodynamics, so we continue to think we are an attractive place for people to want to come and work, but I echo what Paul said: we need certainty, so we can say to people, "Yes, do come and work here", and vice versa, by the way. It is important in my company that we have a rich group of employees from different countries. I want opportunities for UK citizens to go and work in other countries as well. Let us hope that the future political partnership ensures that that continues.

Q194 **Drew Hendry:** I have a couple of quick questions to finish. In terms of research and development, does the political declaration provide you with confidence that the UK will be able to participate in EU-funded research programmes? Will the UK be able to take a leading role in those bids? Perhaps I will start with you, Simon.

Simon Henley: The language is permissive, so it does not close it off, but it is still very open and there is not a huge amount of detail there, at this stage. Again, it will be down to the negotiation and the work that goes on while we are in the withdrawal period.

Drew Hendry: You are not confident but hopeful.

Simon Henley: That is right.

Q195 **Drew Hendry:** The political declaration is also very light on space. Regarding Galileo, what progress has been made towards the UK going it alone, as it were, and do you expect similar problems to arise in relation to the UK's participation in Copernicus?

Katherine Bennett: We were pleased when the British Government announced that they would invest in a UK version of Galileo. There has still not been much movement since that announcement, but of course my colleagues and I, in the space sector for Airbus, are working closely with the Government on how that develops. We are always looking at new opportunities.

On Copernicus, yes, the bid is going through the process at the moment and, as we mentioned before, this could potentially be a €1 billion benefit for the UK sector, so we are working on that.

Q196 **Drew Hendry:** Are you expecting any problems?

Katherine Bennett: In business you always have to expect problems, but I hope you get opportunities too.

Drew Hendry: I am looking for an answer on this context.

Paul Everitt: If things stay as they are, that is not good. If we are not able to negotiate, through the political declaration, a status for the UK that will not be membership but is close to either associate membership or special third-country status, that will be our goal. That is the way in which some of the security and national security sensitivities will be overcome. That is true both in the space project, but also some of the defence and security ones as well. I do not think anyone is sitting here going, "It's all going to be fine". There is a lot of work to do. Our sense from informal contacts, certainly in Europe, is that there is a desire to have the UK as a player.

Q197 **Anna Turley:** Katherine, you warned last time that the outcome of a no-deal Brexit would be "catastrophic" and we have heard today the words, "You do not want to know". It is very clear that a no-deal Brexit would be a disaster for the industry, but it was also mentioned last time that

Airbus could potentially leave the UK if the UK exits the EU without a deal. Is that a reality or is it what is known as "Project Fear"?

Katherine Bennett: Let us not beat around the bush here: Airbus is not happy with Brexit at all. We have been quite honest about that. I understand "to do an Airbus" has become a verb used in Parliament. This is why we published this risk assessment earlier in the summer. We made it quite clear that, if a chaotic Brexit happened, Airbus would consider its future investments in this country. Obviously, we have a great base here, with 14,000 people and 100,000 people in the supply chain. There are a huge number of suppliers that are excellent at what they do. We have big facilities, so we are not going to move overnight, but I am concerned about the future investment. I am happy to be clear with you all that no-deal Brexit is absolutely what we do not want.

I would rather be sitting here today talking to you about positive investments and things to do with the industrial strategy. I have personally done a lot of work on diversity and encouraging more women to go into the industry. I would rather be talking about that and great research projects such as Copernicus. It is clear a no-deal scenario is not what we want.

Q198 **Anna Turley:** Can I ask colleagues if you are seeing that in other places in the sector? Is Airbus alone on this?

Paul Everitt: The key point is that we are a long-cycle business. Products are already embedded that we are selling. You do not choose to move them lightly, because there are significant costs associated. As we sit here though, there is a future emerging and those future products could be built anywhere. There is very aggressive international competition, whether it is from India, China, Singapore or Thailand. Everybody is keen to have a slice of a global industry that is growing and that generates high-value, long-term jobs. This would be a question irrespective of Brexit, in that there is future business to win. This process creates more questions or a higher hurdle that we will have to jump in the future to secure major investment into the UK.

Simon Henley: It comes back to the fact that aviation and aerospace is a global business, and you need to be seen to be a global player and to be able to co-operate. A no-deal Brexit would make us look significantly more isolated in that regard. Therefore, there would be dangers for us.

Q199 **Chair:** Just before we move on, can I come back to your June risk assessment, Katherine Bennett? In that risk assessment, Airbus suggested that, in a no-deal scenario, your business would lose €1 billion a week. How many weeks of loss would it take for Airbus to reconsider that investment in the UK that you have spoken about?

Katherine Bennett: We would have to deal with business readiness, if there is a chaotic Brexit and hold-ups at the border. That is why we gave that figure.

Q200 **Chair:** Even with the planning you have done—you said earlier you have spent €15 million on planning—do you still expect to be losing €1 billion a week?

Katherine Bennett: It is because of the just-in-time process we have. As you probably know, as Simon said, bits of our aircraft fly around or are transported in different means, then get to our final assembly line. There is a very quick turnaround in which we need to deliver those aircraft, so that is the impact we analyse.

Q201 **Chair:** Can you absorb those sorts of losses? Following on from what Anna Turley said, you and Paul have suggested previously that there are other options for where you could produce.

Katherine Bennett: It is not quick to suddenly build a new assembly line for wings, so we would have to absorb that cost. This is why the company is warning that no deal is not a good option.

Paul Everitt: There are two issues. Particularly for the transport issue, our challenge is that we are doing a lot of work. We are all comfortable that we know what we would have to do. People are putting in buffer stock. Our challenge, though, is that, when our truck arrives, I do not know what is going to be in front of it and how prepared the people in front of us are going to be. That is where the unpredictable nature of the situation arises. Another point is that, if Airbus has additional costs, it will sell fewer aircraft and that will be a big blow to the UK and the European aerospace industry. Airbus is 50% of the global marketplace and, if it is uncompetitive, the rest of the industry in Europe is uncompetitive. It is not a company issue; it is an industry-wide issue and a Europe-wide issue, because the consequences are that we are not successful.

Katherine Bennett: We will be delivering our aircraft to our customers.

Chair: Paul Everitt's point is that, if you are losing €1 billion a week and you have to absorb those costs, your costs will be higher than your rivals, such as Boeing or anybody else. As a result, Britain and also Europe would lose business.

Q202 **Anna Turley:** I would like to change tack a little bit. If the deal is voted down here in Parliament, one of the options being discussed is a people's vote and potentially the opportunity to remain. Katherine, you have said you are not happy with Brexit at all. If you had the opportunity to remain, would you like to? Secondly, would you come out publicly to campaign for that?

Katherine Bennett: We do not see that as an option on the table at the moment, so we are not commenting on that.

Paul Everitt: Ours is the same view. We did not get a vote the first time round, as an industry. We are unlikely to get a vote a second time round. At the moment, the options on the table are the agreement the

Prime Minister has negotiated or no deal. We are clear that having a deal is a better outcome for us.

Simon Henley: As a learned society, it is important that we maintain our ability to provide impartial advice; therefore, we would not comment on a political matter.

Q203 **Vernon Coaker:** I will just try to tie a couple of things together. Correct me if I get it wrong. To summarise, remain would be the best option, but clearly we have the deal that has been proposed. You are still making contingency plans for no deal. That is still happening. Is that right?

Katherine Bennett: That is correct.

Q204 **Vernon Coaker:** You were saying, Katherine, that you have put a cost on that. Simon, can I come to you? What were you saying? What was the 10% cost figure?

Simon Henley: It was Paul's figure.

Paul Everitt: That is what we would see as trade facilitations or customs facilitations. At the moment, we do not have a lot of paperwork, administration or delay when, as a third country, we would have a bunch of stuff that we would have to do in the course of business in order to export and import goods into and out of the UK. That is the cost associated with those additional grade-facilitation activities, as we call them.

Q205 **Vernon Coaker:** Simon, you mentioned the supply chain earlier and costs there. Is stockpiling going on?

Simon Henley: Airbus is dealing with their suppliers and there is very clear communication going on, so the suppliers are preparing. Therefore, that is a short-term cost. I would also bring in the fact that the needs for aircraft are ramping up. There are public statements from both Boeing and Airbus in terms of the planned ramp-up of production of aircraft. That gives those companies options for who they choose in their supply chain, because you do not necessarily ramp up with the same supplier. It may be that you open up a second source or whatever. Anything that disadvantages UK companies, by way of adding cost or delay, will impact on their ability to bid into that ramp-up.

Q206 **Vernon Coaker:** That is a significant challenge for the supply chain to be able to do that.

Simon Henley: The supply chain is working very hard at current rates. Therefore, there will be a search, as we ramp up further, and in particular when new technologies are coming on line—the aircraft can be modified all the time—to look again into the supply chain. All options are then open. We need to make sure that the UK maintains its ability to be competitive when bidding for new work.

Paul Everitt: One of the issues that we raised with the Chancellor about no-deal planning was cash flow implications. In order to build buffer stocks, companies are having to bring forward work that they might have done later. Inevitably, they build up to the end of March and then, the assumption is that once you have that, you will burn off the additional levels, because you will have some level of normality. What that means to companies' cash flow is they have to spend a lot of money to get to that position, and then they will not be drawing in quite so much money through the next six to nine months. That is a real concern for us.

The Irish Government are putting in contingencies to try to support companies' cash flow through that period. While there were some positive measures in the Budget around investment allowances, if we are heading in that direction, we need to think about how to better co-ordinate with Government, some of the tax-raising or tax-collecting authorities and banks, to ensure that we have a resilient financial system supporting businesses through this period. Some of us have experience of the financial crash, when it would be fair to say that much of the banking sector was focused on its own liquidity but not very focused on its customers.

Q207 **Vernon Coaker:** Given the disaster that you have all said no deal would be, if there were an attempt by Parliament to say that this deal is not acceptable and to negotiate a better deal, would a longer period of uncertainty for business be a real problem or would the prize of a better deal be something to make that price worth paying?

Paul Everitt: Our situation is the one we have outlined. People are anxious already. When I talk to our members individually, they have a range of views but, from a business perspective, they want to be able to organise and orchestrate themselves as well as they can. While it is attractive to talk about how it could all be great, the reality is, without this agreement, we would pitch ourselves into a period of more significant political uncertainty and potentially on a road to no deal. That is very unattractive.

Q208 **Vernon Coaker:** Accepting something that may not be the best deal gives business certainty, and therefore that would be more acceptable. That comes to the point that, from a business perspective, even a bad deal is preferable to ongoing uncertainty.

Paul Everitt: It is not the uncertainty. It is the risk that we would head to the worst possible outcome. That is our concern.

Katherine Bennett: Not just with my Airbus hat on, but generally, I am concerned that investment decisions are just not being made in the UK's favour. Any longer period of uncertainty would lead to that. It is not a perfect thing we have on the table here but, actually, it is much better than no deal. We are concerned that, the longer it takes, the more investment decisions are going to go against us.

Q209 **Vernon Coaker:** On the future, is there an ask you would have that would help, where the deal could easily be improved? Is there a glaring one, or is it to be worked through?

Paul Everitt: All of the issues that we set out as being important to us are encapsulated in the political declaration. The challenge will be to get the detail into the place that delivers the right outcomes.

Q210 **Chair:** There were reports this morning that the Treasury's estimates are of a £40 billion lost output over 15 years if this deal goes through. That is much less than the £150 billion of lost output that is likely to occur if we come out without any deal. Still, £40 billion of lost output is fewer jobs and less investment coming into this country. You all seem to be supportive of the deal that the Prime Minister has secured, but do you agree that those sorts of assessments of less investment, fewer jobs and that lost output are likely to occur if this deal goes through, Paul Everitt?

Paul Everitt: Forecasts are difficult, are they not? We cannot dispute that there will be additional costs once we are outside of the EU, irrespective of the type of deal we get. The only comfort that we have is that, with a deal or an agreement, there is the opportunity for us as industry to use our own creativity, inventiveness and hard work to minimise impacts and to create an offer for the global industry that is good for us. In the no-deal scenario, that opportunity is taken away or taken out of our control.

Q211 **Chair:** Katherine Bennett, do you think those Treasury assessments of the lost output that we will have as an economy sound about right?

Katherine Bennett: I am sure they are well thought through. Yes, it is not ideal. Again, I go back to my earlier comments about a sense of responsibility. I appreciate it is not on our shoulders but on you as parliamentarians to make that decision, but certainly the agreement as it stands is a step in the right direction.

Simon Henley: For UK companies at the moment, certainly the civil aerospace market but actually the market across the aerospace sector is dominated by Europe and the USA. We have as good an access to those markets as we can have at the moment, under the existing arrangement. As we have outlined, this is potentially not going to be as good in our relationship with Europe. I cannot see other markets stepping up to fill that hole. Therefore, one would expect to have a loss of output and I cannot dispute the figures.

Chair: That is the challenge that we are all facing. We are confronted with a deal that you are telling us is not as good as the arrangements we have at the moment. The economic forecast suggests it is not as good as what we have at the moment, yet you are also saying it is better than crashing out without a deal. That is the challenge for all of us and business, in terms of how you and politicians respond to the deal, and whether we go ahead with something we know is going to make us worse off because of the fear of something worse. Thank you very much for your evidence this morning. It was very considered and helpful to us.